

WINDSTREAM CORP
Form 10-K
February 20, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-32422
WINDSTREAM CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

20-0792300

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

4001 Rodney Parham Road, Little Rock, Arkansas

72212

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code

(501) 748-7000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock (\$0.0001 par per share)

NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

NONE

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

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incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). YES NO

Aggregate market value of voting stock held by non-affiliates as of June 30, 2012 - \$5,681,407,313

Common shares outstanding, February 11, 2013 - 590,484,782

DOCUMENTS INCORPORATED BY REFERENCE

Document	Incorporated Into
Proxy statement for the 2013 Annual Meeting of Stockholders	Part III

The Exhibit Index is located on pages 30 to 34.

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Windstream Corporation
Form 10-K, Part 1

Item 1. Business
THE COMPANY

Unless the context requires otherwise, the use of the terms "Windstream," "we," "us" and "our" in this Annual Report on Form 10-K refers to Windstream Corporation and its consolidated subsidiaries.

OVERVIEW

Windstream's vision is to become the premier enterprise communications and services provider in the United States while maintaining our strong, stable consumer business. Windstream provides advanced communications and technology solutions, including managed services and cloud computing, to businesses nationwide. In addition to business services, we offer broadband, voice and video services to consumers in primarily rural markets. We have operations in 48 states and the District of Columbia, a local and long-haul fiber network spanning approximately 115,000 miles, a robust business sales division and 23 data centers.

Strategy

Our strategy is to maximize growth opportunities with our enterprise business customers while optimizing our cost structure and stabilizing the performance of our heritage consumer business. Our goal from these actions is to generate solid and sustainable cash flow over the long-term, and we intend to return a significant portion of this cash flow to our shareholders through our current dividend practice.

To accomplish our strategy, we are transitioning our revenue streams away from traditional consumer voice services to strategic growth areas of business services and consumer broadband. This diversification of our revenue stream helps us to offset revenue declines driven by consumer customer losses and wholesale revenue declines driven by intercarrier compensation reform.

The transition of our revenue streams has required a period of heavy capital expenditures, which will begin to decline in 2013 as our capital spend returns to more normalized levels. These investments allow us to expand our business service offerings and increase broadband speeds and capacity in our consumer markets.

The expansion of our fiber transport network, through acquisitions and organic growth, enhances our ability to provide wireless transport, or backhaul services. As cellular customers consume more wireless data, wireless carriers need more bandwidth on the wireline transport network. Many wireless towers are still served by copper facilities, but we are rapidly rolling out fiber to accommodate the wireless carriers' additional bandwidth needs. We expect wireless data usage to continue to increase, which will drive the need for additional wireless backhaul capacity.

While providing these services requires an initial capital investment, we make these investments only after securing long-term contracts with wireless carriers, typically for a period of five years, and believe these contracts and the

expected growth in wireless bandwidth needs will provide an attractive return on our capital outlay. These capital investments are made up front, and there is a short lag period between the initial capital spend and the realization of associated revenues.

We are also making significant investments in data centers to broaden the technology-based services we offer, including cloud computing and managed services. We opened two new data centers during 2012, and we operated 23 data centers as of the end of the year, December 31, 2012.

On the consumer front, we continue to make investments to increase broadband speeds and capacity throughout our territories. Although new customer growth is slowing as the market becomes more heavily penetrated, we expect increases in real-time streaming video and traditional Internet usage to motivate customers to upgrade to faster broadband speeds with a higher price. As of December 31, 2012, we could deliver speeds of 3 Megabits per second ("Mbps") to approximately 97 percent of our

addressable lines, and speeds of 6 Mbps, 12 Mbps and 24 Mbps are available to approximately 73 percent, 48 percent and 13 percent of our addressable lines, respectively. We also actively promote value-added Internet services, such as security and online back-up, to take advantage of the broadband speeds we offer.

We are also expanding broadband services to unserved and underserved areas through a combination of our own investment and grant funds received as a result of the American Recovery and Reinvestment Act of 2009 ("broadband stimulus"). Under our existing grant agreements with the Rural Utilities Service ("RUS"), we expect to receive up to \$181.3 million in broadband stimulus funding. Our share for these projects will total at least \$60.4 million. These investments are expected to add 75,000 new addressable broadband lines to our service areas, and the projects will be substantially complete by the end of 2013.

In spite of our ongoing efforts to gain market share, our consumer business remains under pressure due to competition from wireless carriers, cable television companies and other companies using emerging technologies. For the year ended December 31, 2012, our consumer voice lines decreased by 86,000 lines, or 4.5 percent, as compared to the prior year. Given these realities, we must stabilize our consumer revenue and remain squarely focused on expanding business and broadband services to drive top-line growth. By doing so, we expect to continue to create significant value for both our customers and our shareholders.

Dividend

Our goal from our business strategy is to generate solid and sustainable cash flow over the long-term, and we intend to return a significant portion of this cash flow to our shareholders through our current dividend practice. Our current practice is to pay a quarterly dividend of \$0.25 per common share, which equates to \$1 per common share and a 10.1 percent yield on an annual basis, based on our stock price as of February 11, 2013. We cannot assure you we will continue paying dividends at the current rate. See Item 1A, "Risk Factors", for more information.

History

We were created in July 2006 through the spin-off of Alltel Corporation's landline division and merger with VALOR Communications. At the time, we operated in just 16 states with less than 24,000 miles of fiber, a modest business sales organization, and only a handful of lower-tier data centers. Like other traditional telephone companies, we faced two important challenges: consumers were abandoning wireline voice connections in favor of wireless services and cable television companies were increasingly competing for both voice and Internet customers. These challenges led to a decline in revenue and shrinking cash flows and had the potential to impair our ability to maintain the dividend. As a short-term solution to manage these pressures, we completed acquisitions of other traditional telephone companies, which improved our size, scale and cost structure. However, the core problems, presented by a shrinking customer base, still remained.

We had to consider several factors in response to this pressure. First, businesses were experiencing a growing need for advanced data services, including integrated voice and data services, multi-site networking and managed data services. Second, wireless customers were using more and more wireless data, requiring the wireless carriers to obtain additional bandwidth on the wireline network that transports their wireless traffic. Third, consumers were demanding faster broadband speeds at home to accommodate their growing use of streaming video and other Internet-based services. It quickly became apparent that we would have to build a stronger company with increased scale and a more diverse portfolio of product offerings.

In early 2010, we made a critical move to accelerate the transformation of the company when we acquired NuVox Inc. ("NuVox"), a leading regional business services provider based in Greenville, South Carolina. NuVox added a broad portfolio of Internet protocol ("IP") based services and an aggressive sales force. This acquisition marked an important step in positioning the company to better serve business customers.

Two more acquisitions quickly followed in late 2010. On December 1, we purchased Hosted Solutions Acquisition, LLC ("Hosted Solutions") of Raleigh, N.C., a data center operator in the eastern United States. Hosted Solutions provided us the infrastructure to offer many advanced data services, such as cloud computing, managed hosting and managed services, on a wide scale. We gained five state-of-the-art data centers and approximately 600 business customers. On December 2, we completed the acquisition of Q-Comm Corporation's ("Q-Comm") wholly-owned subsidiaries Kentucky Data Link, a regional transport services provider with 30,000 miles of fiber, and Norlight, a business services provider with approximately 5,500 customers. This transaction significantly expanded our fiber network, allowing us to reach more business customers and to compete for more wireless backhaul contracts. KDL's fiber transport network also provided opportunities for substantial operating synergies by allowing us to carry more traffic on our own network rather than paying other carriers for this service.

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Finally, we took another significant step in the transformation of our company on November 30, 2011, when we acquired PAETEC Holding Corp. ("PAETEC"). PAETEC added an attractive base of medium to large-sized business customers, approximately 36,700 fiber route miles, seven data centers, and an experienced sales force focused on serving enterprise-level customers. This transaction significantly enhanced our capabilities in broadband and business - our strategic growth areas.

Our revenue mix has shifted significantly toward our growth areas as a result of these strategic activities. Revenues from businesses and consumer broadband were approximately 69 percent of total revenue for the year ended December 31, 2012, as compared to 42 percent in 2008. Having successfully repositioned the business in growth segments, our focus has shifted to the organic growth of our strategic revenue streams.

OTHER MERGERS AND ACQUISITIONS

We have completed a number of mergers and acquisitions in the last five years. Most notably, we completed a series of strategic acquisitions which have assisted in the transformation of our company from a traditional telephone company into an advanced communications and technology service provider focused on enterprise business customers. These acquisitions included PAETEC, Q-Comm, Hosted Solutions and NuVox; the reasons for these acquisitions and their meaning to our operations are discussed in the preceding section.

The following acquisitions were also important steps in the evolution of our company. Although each involved traditional telephone companies, with a profile similar to ours prior to the transformative acquisitions noted above, each acquisition provided us increased scale, significant synergies and expanded operating presence in contiguous markets.

Iowa Telecom - On June 1, 2010, we completed the acquisition of Iowa Telecommunications Services, Inc. ("Iowa Telecom"), a regional communications services provider. This acquisition added 247,000 voice lines, 96,000 high-speed Internet customers and 25,000 video customers in Iowa and Minnesota. Iowa Telecom expanded our operating presence in contiguous markets in the midwestern United States.

Lexcom - On December 1, 2009, we completed the acquisition of Lexcom, Inc. ("Lexcom"), a local communications company in Lexington, North Carolina. The transaction added approximately 22,000 voice lines, 9,000 high-speed Internet customers and 12,000 cable television customers.

D&E Communications - On November 10, 2009, we completed a merger with D&E Communications, Inc. ("D&E"). The transaction added approximately 145,000 voice lines, 45,000 high-speed Internet customers and 9,000 cable television customers in Pennsylvania.

SERVICES AND PRODUCTS

We offer a robust portfolio of services and products to meet the communications and technology needs of our customers. Our basic offerings are outlined below.

Business

We believe advanced communications and technology services required by today's businesses present our most substantial opportunity for growth. Through our targeted acquisition strategy and organic growth, we have built a portfolio of advanced communications services which meet all customers' communications needs.

We serve business customers of all sizes. Our enterprise customers typically subscribe to services such as multi-site networking, data center, managed services, and other integrated voice and data services. Enterprise customers also

include government contracts, including those under programs such as E-Rate. Small businesses traditionally are served by high-speed Internet, integrated voice and data and traditional voice services, among others.

Our key business service offerings include:

Integrated voice and data services: Our integrated services deliver voice and data over a single connection, which helps our customers manage voice and data usage and related costs. These services are delivered over an Internet connection, as opposed to a traditional voice line, and can be managed through equipment at the customer premise or through hosted equipment options, which we are able to provide.

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Multi-site networking: Our advanced network provides private, secure multi-site connections for large businesses with multiple locations.

Data center services: Our data centers offer cloud computing, colocation, dedicated server and disaster recovery solutions. Our data center services offer the highest level of security, reliability and scalability to business customers.

Managed services: Through our data centers, we provide a breadth of managed services including managed WAN, managed LAN, managed security and managed voice services that allow our customers to focus on running their business and not running their network.

High-speed Internet: We offer high-speed broadband Internet access options designed to help our customers reduce costs and boost productivity. We also offer low cost, high-speed broadband Internet access with reliable connections at speeds up to 24 Mbps.

Voice: Voice services consist of basic telephone services, including voice, long-distance and related features delivered over a traditional copper line.

Carrier services: Carrier services provide network bandwidth to other telecommunications carriers. These include special access services, which provide access and network transport services to end users, and Ethernet transport up to 10 Gigabits per second ("Gbps"). Carrier services also include fiber-to-the-tower connections to support the growing wireless backhaul market.

In addition to the services offered above, we sell and lease customized communications equipment systems tailored specifically to our business customers' needs. We also offer ongoing maintenance plans to support those systems.

Consumer

Our consumer services primarily consist of high-speed Internet, voice and video services. We are committed to providing high-speed broadband and additional value-added services to our consumer base, as well as bundling our service offerings to provide a comprehensive solution to meet our customers' needs at a competitive value.

Our consumer broadband services are described further as follows:

High-speed Internet access: We offer high-speed Internet access with speeds up to 24 Mbps.

Internet security services: Our Security Suite offers customers critical Internet security services, including anti-virus protection, spyware blocking, file back up and restoration.

Online backup services: Our online backup service allows consumers to back up and restore important files through the Internet. Additionally, our backup services provide consumers with the ability to store and share files on network-based storage devices. Files can be accessed from any computer with an Internet connection.

Consumer voice services include basic local telephone services, features and long-distance services. Features include call waiting, caller identification, call forwarding and others. We also offer a variety of long distance plans, including rate plans based on minutes of use, flexible or unlimited long distance calling services.

We offer consumer video services primarily through a relationship with Dish Network LLC ("Dish Network"). We also own and operate cable television franchises in some of our service areas. Our video offerings allow us to provide comprehensive bundled services to our consumer base, helping insulate our customers from competitors.

We sell certain equipment to support our consumer high-speed Internet and voice offerings, including broadband modems, home networking gateways and personal computers. We also sell home phones to support voice services.

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Wholesale

We provide switched access services to long-distance companies and other local exchange carriers for access to our network in connection with the completion of long-distance calls. We also receive compensation from wireless and other local exchange carriers for the use of our facilities.

Certain Universal Service Fund ("USF") revenues are also included in our wholesale revenues. In addition, we supplement our business services with wholesale offerings of voice and data carrier services to other communications providers and to larger-scale purchasers of network capacity.

Other

Other revenues include USF surcharges and other costs passed through to our customers, certain consumer revenues in areas where we no longer offer new service, and other miscellaneous revenue streams.

SALES AND MARKETING

In order to best serve our customers, we have separate, dedicated business and consumer sales and marketing organizations.

Business Sales and Marketing

Our business sales and marketing team leads the Company's development and implementation of smart solutions and personalized service to our customers. Our business sales organization is extensive, including over 200 business sales offices throughout the United States and 2,701 sales employees focused on meeting the needs of our business customers. Our sales and marketing approach is supported by our wide array of products and services delivered over our extensive fiber transport network, leveraging other providers where necessary.

Business sales and service are conducted through:

- the direct sales force, which accounts for the majority of our new sales;
- our account management team, who also supports existing customers by advising and assisting them with their communications needs;
- our business call centers, which provide customer service and also generate new sales and upgrades;
- our indirect sales channel, which partners with third-party dealers who sell directly to customers; and
- third-party agents, who refer sales of our products and services to our direct sales force.

In addition, our carrier sales team specializes in sales of special access and wireless backhaul services to other telecom carriers.

Consumer Sales and Marketing

Our consumer sales and marketing strategy is focused on driving top line revenue performance through bundled product sales and value-added account revenue growth with the goal to grow our broadband revenues and minimize household losses. We employ the following principles to achieve these goals:

Product simplification: We sell double and triple play bundle packages to consumers at competitive price points, offering high-speed Internet, voice and video services at a better value than when purchasing those services individually or from different providers.

- Product enhancement: Value-added services to our high-speed Internet product and faster Internet speeds deliver more value to the consumer while growing account revenue.
- Message integration: A single, consistent consumer message is delivered across all advertising mediums to generate high consumer awareness and strong sales channel interactions.

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Consumer sales are made through various distribution channels giving new and existing customers choices in how they interact and experience our products and services. Additionally, we offer customers the opportunity to order service and purchase a number of products designed to enhance their existing services, such as tablet computers, telephones and accessories at any of our 30 retail stores located in our local service areas. We augment these traditional channels with online sales and national agents.

NETWORK

We have developed a robust, flexible network allowing us to deliver advanced voice and data services. As of December 31, 2012, our network consists of approximately 115,000 miles of fiber optic plant in both our fiber backbone and local service areas and a combination of owned and leased facilities in our local markets.

Our fiber transport network is fully integrated and allows us to offer a full suite of voice and advanced data services, including, but not limited to, multi-site networking, dedicated Internet and Ethernet solutions, high-speed Internet and VoIP services.

In certain territories, we serve business customers by leasing last-mile connections from other carriers. These connections link our business customers to our facilities-based network. In some areas, we own last-mile facilities and are able to connect to our customers directly. Where we own last-mile facilities, we are able to offer up to 10 Gbps of Ethernet managed services.

Our owned local networks consist of central office digital switches, routers, loop carriers and virtual and physical colocations interconnected primarily with fiber and copper facilities. A mix of fiber optic and copper facilities connect our customers with the core network.

We also operate 23 data centers across the country as of December 31, 2012. Our data center capabilities include a full line of managed hosting services, cloud computing and colocation services. Our communications network provides the connectivity and bandwidth necessary to connect our customers to our data center infrastructure. Providing both the data center services and the customer's connection to those services has great value to our customers.

Our network service areas as of December 31, 2012 are detailed in the map below:

COMPETITION

We experience intense competition in both our business and consumer markets as described below. For additional information, see "Regulation" in Item 1 and Item 1A, "Risk Factors".

Business

The market for business customers is highly competitive. During 2012, business customers decreased by approximately 24,700 or 3.7 percent. Our growth in enterprise customers is outpaced by losses in small business customers, typically due to competition from cable companies. However, our enterprise customers are driving growth in revenue through purchases of integrated voice and data services, data center and managed services, and advanced data services such as multi-site networking.

Our primary competitors are other communications providers and cable television companies. In substantially all of our business markets, we face competition from other communications carriers. They offer similar services, from traditional voice to advanced data and technology services using similar facilities and technologies as we do, and compete directly with us for customers of all sizes.

Cable television companies compete with us primarily for small or single-location businesses. Cable companies have deployed technology to offer Internet services to their customers and offer competing voice and data services over the Internet connection. In addition, their networks are capable of supporting wireless backhaul services.

To compete effectively in our business markets, we are investing in our network and service offerings to offer the most technologically advanced solutions available. We rely on scalable, customizable solutions and a suite of services that allows us to meet all of our business customers' communications needs.

Consumer

We experience intense competition for consumer services. During 2012, we lost approximately 86,000 consumer voice lines, or 4.5 percent of our total. Sources of competition in our consumer service areas include, but are not limited to, the following:

Cable television companies: Cable television providers are aggressively offering high-speed Internet, voice and video services in our service areas. These services are typically bundled and offered to our customers at competitive prices.

Wireless carriers: Wireless providers primarily compete for voice services in our consumer markets. Consumers continue to disconnect residential voice service in favor of wireless service. In addition, wireless companies continue to expand their high-speed Internet offerings, which may result in more intense competition for our high-speed Internet customers.

Communications carriers: We are required to lease our facilities and capacity in our consumer areas to other communications carriers. These companies compete with us by providing voice and high-speed Internet services to consumers.

We are generally subject to more stringent regulation than our competitors in our consumer markets. For example, as a provider of last resort, we are required to provide basic phone service to customers in our service areas regardless of whether it is cost-effective to do so.

Although growth expectations are slowing due to the maturing market, we are committed to retaining customers by offering faster broadband speeds and value-added services, while also offering the convenience of bundling those services with voice and video services. During 2012, we added approximately 7,000 consumer high speed Internet customers, an increase of 0.6 percent, as compared to the prior year.

REGULATION

We are subject to regulatory oversight by the Federal Communications Commission ("FCC") for particular interstate matters and state public utility commissions ("PUCs") for certain intrastate matters. We are also subject to various federal and state statutes that direct such regulations. We actively monitor and participate in proceedings at the FCC and PUCs and engage federal and state legislatures on matters of importance to us.

From time to time, federal and state legislation is introduced dealing with various matters that could affect our business. Most proposed legislation of this type never becomes law. It is difficult to predict what kind of legislation, if any, may be introduced and ultimately become law.

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For additional information on these and other regulatory items, please refer to the Regulatory section of Management's Discussion and Analysis in this Annual Report on Form 10-K.

MANAGEMENT

Staff at our headquarters and regional offices supervise, coordinate and assist subsidiaries in management activities including investor relations, acquisitions and dispositions, corporate planning, tax planning, cash and debt management, accounting, insurance, sales and marketing support, government affairs, legal matters, human resources and engineering services.

EMPLOYEES

At December 31, 2012, we had 13,787 employees, of which 1,722 employees are part of collective bargaining units. During 2012, we had no material work stoppages due to labor disputes with our unionized employees (see Item 1A, "Risk Factors").

SEGMENTS

We operate as one reportable segment providing communications and technology services to our customers.

SIGNIFICANT CUSTOMERS

No single customer, or group of related customers, represented 10 percent or more of our operating revenues in 2012, 2011 or 2010.

SEASONALITY

Our business is not subject to significant seasonal fluctuations.

MATERIAL DISPOSITIONS

Wireless markets acquired from CTC

On November 21, 2008, we completed the sale of our wireless business to AT&T Mobility II, LLC for approximately \$56.7 million. The completion of this transaction resulted in the divestiture of approximately 52,000 wireless customers. Also included in the sale were spectrum licenses, cell sites and six retail stores. Operations covered a four county area of North Carolina with a population of approximately 450,000 at the time of the sale.

MORE INFORMATION

Our web site address is www.windstream.com. We file with, or furnish to, the Securities and Exchange Commission (the "SEC") annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to those reports, as well as various other information. This information can be found on the SEC website at www.sec.gov. In addition, we make available free of charge through the Investor Relations page of our web site our annual reports, quarterly reports, and current reports, and all amendments to any of those reports, as soon as reasonably practicable after providing such reports to the SEC. In addition, on the corporate governance section of the Investor Relations page of our web site, we make available our Code of Ethics, the Board of Directors' Amended and Restated Corporate Governance Board Guidelines, and the charters for our Audit, Compensation, and Governance Committees. We will provide to any stockholder a copy of the Code of Ethics, Governance Board Guidelines and the Committee charters, without charge, upon written request to Investor Relations, Windstream Corporation, 4001 Rodney Parham Road, Little Rock, Arkansas 72212.

FORWARD-LOOKING STATEMENTS

We claim the protection of the safe-harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for this Annual Report on Form 10-K. Forward-looking statements are subject to uncertainties that could cause actual future events and results to differ materially from those expressed in the forward-looking statements. Forward-looking statements include, but are not limited to, statements about our expectation to return a significant portion of our cash flow to shareholders through our dividend, our expectation to maintain our current dividend practice at the current rate of dividend, expected levels of support from universal service funds or other government programs, expected rates of loss of voice lines or intercarrier compensation, expected increases in high-speed Internet and business data connections, our expected ability to fund operations, expected required contributions to our pension plan, capital expenditures and certain debt maturities from cash flows from operations, expected synergies and other benefits from completed acquisitions, expected effective federal income tax rates, expected annualized savings from the management restructuring, the amounts expected to be received from the Rural Utilities Service to fund a portion of our broadband stimulus projects and the expected benefit of those projects, and forecasted capital expenditure amounts. These and other forward-looking statements are based on estimates, projections, beliefs, and assumptions that we believe are reasonable but are not guarantees of future events and results. Our actual future events and results may differ materially from those expressed in these forward-looking statements as a result of a number of important factors.

Factors that could cause actual results to differ materially from those contemplated in our forward looking statements include, among others:

further adverse changes in economic conditions in the markets;

the extent, timing and overall effects of competition in the communications business;

the impact of new, emerging or competing technologies;

for certain operations where we lease facilities from other carriers, adverse effects on the availability, quality of service and price of facilities and services provided by other carriers on which our services depend;

the uncertainty regarding the implementation of the Federal Communications Commission's ("FCC") rules on intercarrier compensation adopted in 2011, and the potential for the adoption of further rules by the FCC or Congress on intercarrier compensation and/or universal service reform proposals that result in a significant loss of revenue to us;

unfavorable rulings by state public service commissions in proceedings regarding universal service funds, inter-carrier compensation or other matters that could reduce revenues or increase expenses;

material changes in the communications industry that could adversely affect vendor relationships with equipment and network suppliers and customer relationships with wholesale customers;

earnings on pension plan investments significantly below our expected long term rate of return for plan assets or a significant change in the discount rate;

the availability and cost of financing in the corporate debt markets;

the potential for adverse changes in the ratings given to our debt securities by nationally accredited ratings organizations;

the risks associated with non-compliance with regulations or statutes applicable to government programs under which we receive material amounts of end user revenue and subsidies or non-compliance by us, our partners, or our subcontractors with any terms of our government contracts;

the risks associated with the integration of acquired businesses or the ability to realize anticipated synergies, cost savings and growth opportunities;

unfavorable results of litigation or intellectual property infringement claims asserted against us;

the effects of federal and state legislation, and rules and regulations governing the communications industry;

continued loss of consumer voice lines;

the impact of equipment failure, natural disasters or terrorist acts;

the effects of work stoppages by our employees or employees of other communications companies on whom we rely for service; and

those additional factors under the caption "Risk Factors" in Item 1A of this annual report and in subsequent filings with the Securities and Exchange Commission at www.sec.gov.

In addition to these factors, actual future performance, outcomes and results may differ materially because of more general factors including, among others, general industry and market conditions and growth rates, economic conditions, and governmental and public policy changes.

We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors that could cause our actual results to differ materially from those contemplated in the forward-looking statements should be considered in connection with information regarding risks and uncertainties that may affect our future results included in this Management's Discussion and Analysis of Financial Condition and Results of Operations and in our other filings with the Securities and Exchange Commission at www.sec.gov.

Item 1A. Risk Factors
Risks Relating to Our Business

The following discussion of "Risk Factors" identifies the most significant factors that may adversely affect our business, results of operations or financial position. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included in this report. The following discussion of risks is not all-inclusive but is designed to highlight what we believe are important factors to consider when evaluating our business and expectations. These factors could cause our future results to differ materially from our historical results and from expectations reflected in forward-looking statements. Additionally, this discussion should not be construed as a listing of risks by order of potential magnitude or probability to occur.

Competition in our business markets could adversely affect our results of operations and financial condition.

We serve business customers in markets across the country, competing against other communications providers and cable television companies for business customers. Competition in our business markets could adversely affect growth in business revenues and ultimately have a material adverse impact on our results of operations and financial condition. If we are unable to compete effectively, we may be forced to lower prices or increase our sales and marketing expenses. In addition, we may need to make significant capital expenditures in order to keep up with technological advances and offer competitive services. For additional information, see the risk factor "Rapid changes in technology could affect our ability to compete for business customers."

In certain markets where we serve business customers, we lease significant amounts of network capacity in order to provide service to our customers. We lease these facilities from companies competing directly with us for business customers. For additional information, see the risk factor "In certain operating territories, we are dependent on other carriers to provide facilities which we use to provide service to our customers."

Competition in our consumer service areas could reduce our market share and adversely affect our results of operations and financial condition.

We face intense competitive pressures in our consumer service areas. If we continue to lose consumer voice lines as we have historically, our results of operations and financial condition could be adversely affected. During 2012, our consumer voice lines declined 4.5 percent.

Sources of competition include, but are not limited to, wireless companies, cable television companies and other communications carriers. Many of our competitors, especially wireless and cable television companies, have advantages over us, including substantially larger operational and financial resources, larger and more diverse networks, less stringent regulation and superior brand recognition. For additional discussion regarding competition, see "Competition" in Item 1.

Cable television companies have aggressively expanded in our consumer markets, offering voice and high-speed Internet services in addition to video services. Some of our customers have chosen to move to cable television providers for their voice, high-speed Internet and television bundles. Cable television companies are subject to less stringent regulations than our consumer operations. For more information, refer to the risk factor, "Our competitors, especially cable television companies, in our consumer markets are subject to less stringent industry regulations."

Wireless competition has contributed to a reduction in our voice lines and generally has caused pricing pressure in the industry. Some customers have chosen to stop using traditional wireline phone service and instead rely solely on wireless service. We anticipate that this trend toward solely using wireless services will continue, particularly if wireless prices continue to decline and the quality of wireless services improves.

Competition in our consumer markets could affect our revenues and profitability in several ways, including accelerated consumer voice line loss, reductions by customers in usage-based services or shifts to less profitable services and a need to lower our prices on unregulated services or increase marketing expenses to stay competitive.

Rapid changes in technology could affect our ability to compete for business customers.

The technology used to deliver communications services has changed rapidly in the past and will likely continue to do so in the future. If we are unable to keep up with such changes, we may not be able to offer competitive services to our business

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customers. This could adversely affect our ability to compete for business customers, which, in turn, would adversely affect our results of operations and financial condition.

New technologies may affect our ability to compete in our consumer markets.

Wireless companies are aggressively developing networks using next-generation data technologies, which are capable of delivering high-speed Internet service via wireless technology to a large geographic footprint. If these technologies continue to expand in availability and reliability, they could become an effective alternative to our high-speed Internet services. In addition, cable operators may be able to take advantage of certain technology to deploy faster broadband speeds more rapidly than Windstream.

In addition to broadband technology, evolving voice technologies, such as Voice over Internet Protocol ("VoIP"), may effectively compete with voice and long-distance services in our consumer markets.

These and other new and evolving technologies could result in greater competition for our voice and high-speed Internet services. If we cannot develop new services and products to keep pace with technological advances, or if such services and products are not widely embraced by our customers, our results of operations could be adversely affected.

In certain operating territories, we are dependent on other carriers to provide facilities which we use to provide service to our customers.

In certain markets, especially where we provide services to businesses, we lease a significant portion of our network capacity from other carriers. These carriers compete directly with us for customers.

The prices for network capacity are negotiated or purchased pursuant to tariff terms and conditions. These may be changed but must be approved by the appropriate regulatory agency before they go into effect. In addition, whenever we enter a new market, and an existing agreement expires, interconnection agreements must be negotiated. If they cannot be negotiated on favorable terms, or at all, we may invoke binding arbitration by state regulatory agencies. This process is expensive and time consuming, and the results of arbitration may be unfavorable to us. The inability to obtain interconnection on favorable terms could have a material adverse effect on our competitive position and results of operations.

Where we lease network capacity, communications services are susceptible to changes in the availability and pricing of the provider's facilities and services. If the provider becomes legally entitled to deny or limit access to capacity, or if state commissions allow them to increase their rates, we may not be able to effectively compete. In addition, if the provider does not adequately maintain or timely install these facilities, which they are legally obligated to do, our service to customers may be adversely affected. As a result, our results of operations and financial condition could be materially affected.

Disruptions and congestion in our networks and infrastructure may cause us to lose customers and incur additional expenses.

Our customers depend on reliable service over our network. Some of the risks to our network infrastructure include physical damage to lines, security breaches, capacity limitations, power surges or outages, software defects and disruptions beyond our control, such as natural disasters and acts of terrorism. From time to time in the ordinary course of business, we will experience short disruptions in our service due to factors such as cable damage, inclement weather and service failures of our third party service providers. Additionally, we could face disruptions due to capacity limitations as a result of changes in our customers' high speed Internet usage patterns. These patterns have changed in recent years, for example through the increased usage of video, resulting in a significant increase in the utilization of our network.

We could experience more significant disruptions in the future. Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose customers or incur additional expenses or capital expenditures. Such results could adversely affect our results of operations and financial condition.

Disruptions in our data centers could cause service interruptions for customers using advanced data services.

Many of our advanced data products are supported by our data center infrastructure, including offerings such as colocation services, cloud computing, managed services and disaster recovery services. Risks to our data center infrastructure include, but are not limited to, natural disasters, security breaches or acts of terrorism.

If a disruption occurs in one of our data centers, our customers could lose access to information critical to running their businesses, which could result in a loss of customers. We may also incur significant operating or capital expenditures to restore service. As a result, disruptions could affect our results of operations and financial condition.

Increases in broadband usage may cause network capacity limitations, resulting in service disruptions or reduced capacity for customers.

Video streaming services and peer-to-peer file sharing applications use significantly more bandwidth than traditional Internet activity such as web browsing and email. As utilization rates and availability of these services continue to grow, our high-speed Internet customers may use much more bandwidth than in the past. If this occurs, we could be required to make significant capital expenditures to increase network capacity in order to avoid service disruptions or reduced capacity for customers.

Alternatively, we may choose to implement network management practices to reduce the network capacity available to bandwidth-intensive activities during certain times in market areas experiencing congestion, and these actions could negatively affect customer experience and increase customer churn.

While we believe demand for these services may drive high-speed Internet customers to pay for faster broadband speeds, we may not be able to recover the costs of the necessary network investments. This could result in an adverse impact to our results of operations and financial condition.

We cannot assure you we will continue paying dividends at the current rate.

Our board of directors maintains a current dividend practice for the payment of quarterly cash dividends at a rate of \$0.25 per share of common stock. This practice can be changed at any time at the discretion of the board of directors, and our common stockholders should be aware that they have no contractual or other legal right to dividends. In addition, the other risk factors described in this section could materially reduce the cash available from operations or significantly increase our capital expenditure requirements, and these outcomes could cause funds not to be available when needed in an amount sufficient to support our current dividend practice.

The amount of dividends that we may distribute is also limited by restricted payment and leverage covenants in our credit facilities and indentures, and, potentially, the terms of any future indebtedness that we may incur. The amount of dividends that we may distribute is also subject to restrictions under Delaware law. If our board of directors were to adopt a change in our current dividend practice that results in a reduction in the amount of dividends, such change could have a material and adverse effect on the market price of our common stock.

We are subject to various forms of regulation from the Federal Communications Commission ("FCC") and state regulatory commissions in the states in which we operate, which limit our pricing flexibility for regulated voice and high-speed Internet products, subject us to service quality, service reporting and other obligations and expose us to the reduction of revenue from changes to the universal service fund, the intercarrier compensation system, or access to interconnection with competitors' facilities.

As of December 31, 2012, we had operating authority from each of the 48 states and the District of Columbia in which we conducted local service operations, and we are subject to various forms of regulation from the regulatory commissions in each of these areas as well as from the FCC. State regulatory commissions have jurisdiction over local and intrastate services including, to some extent, the rates that we charge and service quality standards. The FCC has primary jurisdiction over interstate services including the rates that we charge other telecommunications companies that use our network and other issues related to interstate service. These regulations restrict our ability to adjust rates to reflect market conditions and affect our ability to compete and respond to changing industry conditions.

Future revenues, costs, and capital investment in our wireline business could be adversely affected by material changes to or decisions regarding applicability of government requirements, including, but not limited to, changes in rules governing intercarrier compensation, state and federal USF support and other pricing and requirements. Federal and state communications laws may be amended in the future, and other laws may affect our business. In addition, certain laws and regulations applicable to us and our competitors may be, and have been, challenged in the courts and could be changed at any time. We cannot predict future developments or changes to the regulatory environment or the impact such developments or changes would have.

In addition, these regulations could create significant compliance costs for us. Delays in obtaining certifications and regulatory approvals could cause us to incur substantial legal and administrative expenses, and conditions imposed in connection with

such approvals could adversely affect the rates that we are able to charge our customers. Our business also may be affected by legislation and regulation imposing new or greater obligations related to, for example, assisting law enforcement, bolstering homeland and cyber-security, protecting intellectual property rights of third parties, minimizing environmental impacts, protecting customer privacy, or addressing other issues that affect our business.

If we are prohibited from participating in government programs, our results of operations could be materially and adversely affected.

We are the recipient of a material amount of end user revenue and government subsidies under various government programs and also serve as a government contractor for services for various state, local and federal agencies. Our failure to comply with the complex government regulations and statutes applicable to the programs, or the terms of one or more of our government contracts, could result in our being suspended or disbarred from future government programs for a significant period of time or result in harm to our reputation with the government and possible restriction from future government activities. While we have implemented compliance programs and internal controls that are reasonably designed to prevent misconduct and non-compliance relating to the government programs and contracting, we cannot eliminate the risk that our employees, partners or subcontractors may independently engage in such activities.

If we are suspended or debarred from government programs, or if our government contracts are terminated for any reason, we could suffer a significant reduction in expected revenue which could have a material and adverse effect on our operating results.

Competitors, especially cable television companies, in our consumer markets are subject to less stringent industry regulations, which could result in voice line and revenues losses in the future.

Cable television companies are generally subject to less stringent regulations than our consumer operations. Cable voice offerings and others are subject to fewer service quality and reporting requirements than our consumer operations, and their rates are generally not subject to regulation, unlike our consumer voice services. Our consumer areas are also subject to "carrier of last resort" obligations, which generally obligate us to provide basic voice services to any person within our service area regardless of the profitability of the customer. Our competitors in these areas are not subject to such requirements.

Because of these regulatory disparities, we have less flexibility in our consumer markets than our competitors. This could result in accelerated voice line and revenue losses in the future.

Different interpretation and/or implementation of certain sections contained in the FCC's Intercarrier Compensation and Universal Service reform order could result in additional access revenue reductions.

The FCC's reform order adopted in 2011 provides that intrastate traffic that originates in VoIP format and is delivered by long distance carriers to us for termination will be assessed interstate access charges. During 2012, we coordinated with long distance carriers to transition to these reduced interstate access rates, and this transition will result in further reductions on July 2, 2013.

In a subsequent order, the FCC determined that intrastate traffic we originate through the traditional telephone network and deliver to a customer served under a VoIP platform is subject to interstate access charges beginning on July 1, 2014. We have filed an appeal in the United States Court of Appeals for the 10th Circuit asserting that the FCC's decision to cut originating access for such traffic without establishing a mechanism for recovering lost revenues was arbitrary, capricious, and/or inconsistent with reasoned decisionmaking. If our appeal fails or the FCC fails to create a recovery mechanism, we will incur additional access revenue reductions. In addition, due to the uncertainty surrounding the application of these rules, we cannot estimate the amount of these reductions until we can quantify the amount of traffic based on information obtained from long distance carriers.

In 2012, we received approximately 4 percent of our revenues from state and federal USF, and any material adverse regulatory developments with respect to these funds could adversely affect our profitability.

We receive state and federal USF revenues to support the high cost of providing affordable telecommunications services in rural markets. Such support payments constituted approximately 4 percent of our revenues for the year ended December 31, 2012. A portion of such fees are based on relative cost and voice line counts, and we expect receipt of such fees to decline as

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we continue to reduce costs and lose voice lines. Pending regulatory proceedings could, depending on the outcome, materially reduce our USF revenues.

Texas is continuing to review its USF funding mechanism, and any adverse developments could significantly affect our USF revenues. Texas state USF revenues were \$88.3 million in 2012.

We are required to make contributions to state and federal USF programs each year. Most state and federal regulations allow us to recover these contributions by including a surcharge on our customers' bills. If state and/or federal regulations change, and we become ineligible to receive support, such support is reduced, or we become unable to recover the amounts we contribute to the state and federal USF programs from our customers, our results of operations and financial condition would be directly and adversely affected.

Our operations require substantial capital expenditures, and if funds for capital expenditures are not available when needed, this could affect our service to customers and our growth opportunities.

We require substantial capital to maintain our network, and our growth strategy will require significant capital investments for network enhancements and build-out. During 2012, we incurred \$1,101.2 million in capital expenditures, and we expect to incur in excess of \$800.0 million in capital expenditures in 2013 due to our significant investments in fiber-to-the-tower and other initiatives. See "Liquidity and Capital Resources" for our expected capital expenditures in 2013.

We use a significant portion of our cash generated from operations to pay dividends to stockholders, which could limit our ability to make the capital expenditures necessary to support our business needs and growth plans. We expect to be able to fund required capital expenditures from cash generated from operations. However, other risk factors described in this section could materially reduce cash available from operations or significantly increase our capital expenditure requirements. If this occurs, funds for capital expenditures may not be available when needed, which could affect our service to customers and our growth opportunities.

Unfavorable changes in financial markets could adversely affect our pension plan investments resulting in material funding requirements to meet pension obligations.

Our pension plan invests in marketable securities, including marketable debt and equity securities denominated in foreign currencies, which are exposed to changes in the financial markets. During 2012, the fair market value of these investments increased from \$948.9 million to \$999.0 million due to return on assets held of \$130.0 million, or 13.5 percent. These increases were partially offset by routine benefit payments of \$60.1 million and lump sum payments and administrative expenses of \$19.8 million. Returns generated on plan assets have historically funded a large portion of the benefits paid under our pension plan.

We estimate that the long term rate of return on plan assets will be 7.0 percent, but returns below this estimate could significantly increase our contribution requirements, which could adversely affect our cash flows from operations. Also, historically low interest rates introduce lower discount rates, which directly increases the pension liability on our balance sheet and exposes us to greater funding obligations in the future. During the fourth quarter of 2011, we changed our policy for accounting for pension costs to immediately recognize gains or losses resulting from the return on plan assets and other true-ups to other actuarial estimates. While this change does not affect cash flows, it will introduce the potential for volatility to our earnings reported under accounting principles generally accepted in the United States ("U.S. GAAP"), especially if the return on plan assets during the year differ significantly from the estimated rate of return.

Our substantial debt could adversely affect our cash flow and impair our ability to raise additional capital on favorable terms.

As of December 31, 2012, we had approximately \$8,996.5 million long-term debt outstanding, including current maturities. We may also obtain additional long-term debt to meet future financing needs or to fund potential acquisitions, subject to certain restrictions under our existing indebtedness, which would increase our total debt. Our substantial amount of debt could have negative consequences to our business. For example, it could:

• Increase our vulnerability to general adverse economic and industry conditions;

Require us to dedicate a substantial portion of cash flows from operations to interest and principal payments on outstanding debt, thereby limiting the availability of cash flow to fund future capital expenditures, working capital and other general corporate requirements;

Limit our flexibility in planning for, or reacting to, changes in our business and the telecommunications industry;

Place us at a competitive disadvantage compared with competitors that have less debt; and

Limit our ability to borrow additional funds, even when necessary to maintain adequate liquidity.

In addition, our ability to borrow funds in the future will depend in part on the satisfaction of the covenants in our credit facilities and its other debt agreements. If we are unable to satisfy the financial covenants contained in those agreements, or are unable to generate cash sufficient to make required debt payments, the lenders and other parties to those arrangements could accelerate the maturity of some or all of our outstanding indebtedness.

We may not generate sufficient cash flows from operations, or have future borrowings available under our credit facilities or from other sources sufficient to enable us to make our debt payments or to fund dividends and other liquidity needs. We may not be able to refinance any of our debt, including our credit facilities, on commercially reasonable terms or at all. If we are unable to make payments or refinance our debt, or obtain new financing under these circumstances, we would have to consider other options, such as selling assets, issuing additional equity or debt, or negotiating with our lenders to restructure the applicable debt. Our credit agreement and the indentures governing our senior notes may restrict, or market or business conditions may limit, our ability to do some of these things on favorable terms or at all.

As of February 11, 2013, Moody's Investors Service ("Moody's"), S&P and Fitch Ratings ("Fitch") had granted Windstream the following senior secured, senior unsecured and corporate credit ratings:

Description	Moody's	S&P	Fitch
Senior secured credit rating	Baa3	BB+	BBB-
Senior unsecured credit rating	Ba3	B	BB+
Corporate credit rating	Ba2	BB-	BB+
Outlook	Negative	Stable	Stable

Factors that could affect our short and long-term credit ratings include, but are not limited to, a material decline in our operating results, increased debt levels relative to operating cash flows resulting from future acquisitions, increased capital expenditure requirements, or changes to our dividend policy. In addition, we are not currently paying down a significant amount of debt. If our credit ratings were to be downgraded from current levels, we might incur higher interest costs on future borrowings, and our access to the public capital markets could be adversely affected.

We may be unable to fully realize expected benefits from our recent acquisitions.

We expect to achieve substantial synergies, cost savings and growth opportunities as a result of our recent acquisitions. If we are unable to successfully integrate acquired businesses, or integrate them in a timely fashion, we may face material adverse affects including, but not limited to:

diversion of management's attention to and potential disruption of our ongoing businesses;

customer losses;

the loss of quality employees from the acquired companies;

- adverse developments in vendor relationships;
- declines in our results of operations and financial condition; and
- a decline in the market price of our common stock.

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Even if we successfully integrate these businesses, there can be no assurance that these integrations will result in the realization of the full benefit of the anticipated synergies, cost savings or growth opportunities or that these benefits will be realized within the expected time frames.

We may need to defend ourselves against lawsuits or claims that we infringe upon the intellectual property rights of others.

From time to time, we receive notices from third parties, or we are named in lawsuits filed by third parties, claiming we have infringed or are infringing upon their intellectual property rights. We may receive similar notices or be involved in similar lawsuits in the future. In certain situations, we may have the ability to seek indemnification from our vendors regarding these lawsuits or claims. If we cannot enforce our indemnification rights or if our vendors lack the financial means to indemnify us, these claims may require us to expend significant time and money defending our alleged use of the affected technology, may require us to enter into licensing agreements requiring one-time or periodic royalty payments that we would not otherwise have to pay or may require us to pay damages. If we are required to take one or more of these actions, it may result in an adverse impact to our results of operations and financial condition. In addition, in responding to these claims, we may be required to stop selling or redesign one or more of our products or services, which could adversely affect the way we conduct our business.

Weak economic conditions may decrease demand for our services.

We could be affected by economic conditions and downturns in the economy, especially in regards to our business customers. Downturns in the economy in the markets we serve could cause our existing customers to reduce their purchases of our services and make it difficult for us to obtain new customers.

Our relationships with other communications companies are material to our operations and their financial difficulties may adversely affect us.

We originate and terminate calls for long distance and other voice carriers over our network in exchange for access charges. These access charges represent a significant portion of our revenues. Additionally, we are making significant capital investments to deploy fiber-to-the-tower and other network services for wireless companies in return for long-term revenue generating contracts. If these carriers go bankrupt or experience substantial financial difficulties and we are unable to timely collect payments from them, it may have a negative effect on our results of operations and financial condition.

Key suppliers may experience financial difficulties that may affect our operations.

Windstream purchases a significant amount of equipment from key suppliers to maintain, upgrade and enhance our network facilities and operations. Should these suppliers experience financial difficulties, their issues could adversely affect our business through increased prices to source purchases through alternative vendors or unanticipated delays in the delivery of equipment and services purchased.

Adverse developments in our relationship with our employees could adversely affect our business, our results of operations and financial condition.

As of December 31, 2012, 1,722 of our employees at various sites, or 12 percent of all of our employees, were covered by collective bargaining agreements. Our relationship with these unions generally has been satisfactory, but occasional work stoppages have occurred.

We are currently party to 24 collective bargaining agreements and one National Pension Agreement with several unions, which expire at various times. Of our existing collective bargaining agreements, ten agreements covering 612

employees are due to expire in 2013. In addition, the national pension agreement covers 612 employees. This agreement expired in 2010 but has been extended indefinitely, subject to the right of Windstream or the unions to terminate the agreement with 30 days notice. Historically, we have succeeded in negotiating new collective bargaining agreements without work stoppages; however, no assurances can be given that we will succeed in negotiating new collective bargaining agreements to replace the expiring ones without work stoppages. Increases in organizational activity or any future work stoppages could have a material adverse effect on our business, our results of operations and financial condition.

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Cyber security incidents could have a significant operational and financial impact.

We store customers' proprietary business information in our facilities through our colocation, managed services and cloud computing services. In addition, we maintain certain sensitive customer information in our financial and operating systems. While we have implemented data security polices and other internal controls to safeguard and protect against misuse or loss of this information, if their data were compromised through a cyber security incident, it could have a significant impact on our results of operations and financial condition.

Item 1B. Unresolved Staff Comments

No reportable information under this item.

Item 2. Properties

Certain of our properties are pledged as collateral as discussed further in Note 15 to the consolidated financial statements. The obligations under our senior secured credit facilities are secured by liens on substantially all of our personal property assets and our subsidiaries who are guarantors of our senior secured credit facilities. A summary of our investment in property, plant and equipment is presented below.

We own property, which consists primarily of land and buildings, office and warehouse facilities, central office equipment, software, outside plant and related equipment. Outside communications plant includes aerial and underground cable, conduit, poles and wires. Central office equipment includes digital switches and peripheral equipment. As such, our properties do not provide a basis for description by character or location of principal units.

Our gross investment in property, by category, as of December 31, 2012, was as follows:

	(Millions)
Land	\$46.3
Building and improvements	649.4
Central office equipment	5,276.0
Outside communications plant	6,256.2
Furniture, vehicles and other equipment	1,270.8
Total	\$13,498.7

Item 3. Legal Proceedings

We are party to various legal proceedings, the ultimate resolution of which cannot be determined at this time. Management does not believe such proceedings, individually or in the aggregate, will have a material adverse effect on the future consolidated results of our income, cash flows or financial condition.

In addition, management is currently not aware of any environmental matters, individually or in the aggregate, that would have a material adverse effect on our consolidated financial condition or results of our operations.

Item 4. Mine Safety Disclosures

Not applicable.

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Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information, Holders and Dividends

Our common stock is traded on the NASDAQ Global Select Market under the symbol "WIN". The following table (a) reflects the range of high, low and closing prices of our common stock as reported by Dow Jones & Company, Inc. for each quarter in 2012 and 2011:

Year	Quarter	High	Low	Close	Dividend Declared
2012	4th	\$10.27	\$7.86	\$8.28	\$0.25
	3rd	\$11.04	\$9.11	\$10.09	\$0.25
	2nd	\$11.75	\$9.00	\$9.66	\$0.25
	1st	\$12.55	\$11.41	\$11.71	\$0.25
2011	4th	\$12.60	\$10.88	\$11.74	\$0.25
	3rd	\$13.25	\$10.76	\$11.65	\$0.25
	2nd	\$13.57	\$12.38	\$12.96	\$0.25
	1st	\$14.04	\$12.05	\$12.88	\$0.25

As of February 11, 2013, the approximate number of holders of common stock, including an estimate for those holding shares in street name, was 227,376.

For a discussion of certain restrictions on our ability to pay dividends under our debt instruments, see "Management's Discussion and Analysis of Financial Condition and Results of Operations, Financial Condition, Liquidity and Capital Resources" in the Financial Supplement to this annual report on Form 10-K.

(b) Not applicable.

(c) Not applicable.

Stock Performance

Set forth below is a line graph showing comparisons of stockholder returns since December 31, 2007. The graph includes the total cumulative stockholder returns on our common stock, and comparative returns on the S&P 500 Stock Index and the S&P Telecom Index. The S&P Telecom Index consists of the following companies: AT&T Inc., CenturyLink, Inc., Crown Castle International Corp., Frontier Communications Corp., MetroPCS Communications Inc., Sprint Nextel Corp., Verizon Communications Inc., Windstream Corporation. The graph assumes that the value of the investment was \$100 on December 31, 2007 and that all dividends and other distributions were reinvested.

Total Cumulative Shareholder Returns

	2007	2008	2009	2010	2011	2012
Windstream	\$100.00	\$77.36	\$102.97	\$141.84	\$129.48	\$101.01
S&P 500	\$100.00	\$63.00	\$79.68	\$91.68	\$93.61	\$108.59
S&P Telecom	\$100.00	\$69.52	\$75.74	\$90.09	\$95.78	\$113.31

The graph and table above provide the cumulative change of \$100.00 invested on December 31, 2007, including reinvestment of dividends, for the periods indicated.

The foregoing performance graph contained in Item 5 shall not be deemed to be soliciting material or be filed with the Securities and Exchange Commission or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended.

Securities Authorized for Issuance Under Equity Compensation Plans

Under our share-based compensation plans, we may issue restricted stock and other equity securities to directors, officers and other key employees. The maximum number of shares available for issuance under the Windstream 2006 Amended and Restated Equity Incentive Plan is 20.0 million shares and under the PAETEC Holding Corp. 2011 Omnibus Incentive Plan is approximately 3.6 million shares.

The following table sets forth information about our equity compensation plans as of February 11, 2013:

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights [a]	Weighted-average exercise price of outstanding options, warrants and rights [b]	Number of securities remaining available for future issuance under equity compensation plans [c] (excluding securities reflected in column [a])	
Equity compensation plans not approved by security holders	3,060,978	\$7.22	2,456,735	
Equity compensation plans approved by security holders	—	—	5,860,268	(1)
Total	3,060,978	\$7.22	8,317,003	(2)

(1) The Windstream Corporation 2006 Amended and Restated Equity Incentive Plan.

(2) The PAETEC Holding Corp. 2011 Omnibus Incentive Plan.

Item 6. Selected Financial Data

For information pertaining to our Selected Financial Data, refer to page F-31 of the Financial Supplement, which is incorporated by reference herein.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

For information pertaining to Management's Discussion and Analysis of our Financial Condition and Results of Operations, refer to pages F-2 to F-30 of the Financial Supplement, which is incorporated by reference herein.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

For information pertaining to our market risk disclosures, refer to pages F-25 of the Financial Supplement, which is incorporated by reference herein.

Item 8. Financial Statements and Supplementary Data

For information pertaining to our Financial Statements and Supplementary Data, refer to pages F-35 to F-94 of the

Financial Supplement, which is incorporated by reference herein.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

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Item 9A. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The term "disclosure controls and procedures" (defined in Exchange Act Rule 13a-15(e)) refers to the controls and other procedures of Windstream that are designed to ensure that information required to be disclosed by Windstream in the reports that it files or submits under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by Windstream in the reports that it files or submits under the Exchange Act is accumulated and communicated to Windstream's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Windstream's management, with the participation of the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this annual report (the "Evaluation Date"). Based on that evaluation, Windstream's Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, such disclosure controls and procedures were effective.

(b) Management's report on internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting, which appears on page F-33 of the Financial Supplement, is incorporated by reference herein.

(c) Changes in internal control over financial reporting.

The term "internal control over financial reporting" (defined in Exchange Act Rule 13a-15(f)) refers to the process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

1. Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, have evaluated any changes in our internal control over financial reporting that occurred during the period covered by this annual report, and they have concluded that there were no changes to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

No reportable information under this item.

Windstream Corporation
Form 10-K, Part III

Item 10. Directors, Executive Officers, and Corporate Governance

For information pertaining to our Directors refer to "Proposal No. 1 – Election of Directors" in our Proxy Statement for our 2013 Annual Meeting of Stockholders, which is incorporated herein by reference. For information pertaining to the Audit Committee financial expert and corporate governance refer to "Board and Board Committee Matters" in our Proxy Statement for our 2013 Annual Meeting of Stockholders, which is incorporated herein by reference. For information pertaining to the Audit Committee, refer to "Audit Committee Report" in our Proxy Statement for our 2013 Annual Meeting of Stockholders, which is incorporated herein by reference.

Our executive officers as of December 31, 2012, were as follows:

Name	Business Experience	Age
Jeffery R. Gardner	President and Chief Executive Officer of Windstream since formation on July 17, 2006.	52
Brent K. Whittington	Chief Operating Officer of Windstream since August 10, 2009; Executive Vice President and Chief Financial Officer of Windstream from July 2006 to August 2009.	41
Anthony W. Thomas	Chief Financial Officer and Treasurer of Windstream since May 30, 2012; Chief Financial Officer of Windstream from August 2009 to May 2012; Controller of Windstream from July 2006 to August 2009.	41
John P. Fletcher	Executive Vice President, General Counsel and Secretary of Windstream since formation on July 17, 2006.	47
Cindy Nash	Chief Information Officer of Windstream since August 10, 2009; Senior Vice President of Information Technology of Windstream from November 2007 to August 2009; Senior Vice President of Customer Service of Windstream from July 2006 to November 2007	48
John C. Eichler	Vice President and Controller of Windstream since August 10, 2009; Vice President of Internal Audit from July 2006 to August 2009.	41

We have a code of ethics that applies to all employees and members of the Board of Directors. Our code of ethics, referred to as the "Working with Integrity" guidelines, is posted on the Investor Relations page of our web site (www.windstream.com) under "Corporate Governance". We will disclose in the corporate governance section of the Investor Relations page on our web site amendments and waivers with respect to the code of ethics that would otherwise be required to be disclosed under Item 5.05 of Form 8-K. We will provide to any stockholder a copy of the foregoing information, without charge, upon written request to Investor Relations, Windstream Corporation, 4001 Rodney Parham Road, Little Rock, Arkansas 72212.

For information regarding compliance with Section 16(a) of the Exchange Act, refer to "Section 16 (a) Beneficial Ownership Reporting Compliance" in our Proxy Statement for our 2013 Annual Meeting of Stockholders, which is incorporated herein by reference.

Item 11. Executive Compensation

For information pertaining to Executive Compensation, refer to "Compensation Committee Report on Executive Compensation" and "Management Compensation" in our Proxy Statement for our 2013 Annual Meeting of Stockholders, which are incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

For information pertaining to beneficial ownership of our securities and director independence, refer to "Security Ownership of Directors and Executive Officers", "Security Ownership of Certain Beneficial Owners" and "Board and Board Committee Matters" in our Proxy Statement for our 2013 Annual Meeting of Stockholders, which are incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

For information pertaining to Certain Relationships and Related Transactions, refer to "Relationships and Certain Transactions" in our Proxy Statement for our 2013 Annual Meeting of Stockholders, which is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

For information pertaining to fees paid to our principal accountant and the Audit Committee's pre-approval policy and procedures with respect to such fees, refer to "Audit and Non-Audit Fees" in our Proxy Statement for our 2013 Meeting of Stockholders, which is incorporated herein by reference.

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Windstream Corporation
Form 10-K, Part IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as a part of this report:

Financial Statements:

1. Our Consolidated Financial Statements are included in the Financial Supplement, which is incorporated by reference herein:

	Financial Supplement Page Number
<u>Report of Independent Registered Public Accounting Firm</u>	F-34
<u>Consolidated Statements of Income - for the years ended December 31, 2012, 2011 and 2010</u>	F-35
<u>Consolidated Statements of Comprehensive Income - for the years ended December 31, 2012, 2011 and 2010</u>	F-36
<u>Consolidated Balance Sheets - as of December 31, 2012 and 2011</u>	F-37
<u>Consolidated Statements of Cash Flows - for the years ended December 31, 2012, 2011 and 2010</u>	F-38
<u>Consolidated Statements of Shareholders' Equity - for the years ended December 31, 2012, 2011 and 2010</u>	F-39
<u>Notes to Consolidated Financial Statements</u>	F-40 - F-94

2. Financial Statement Schedules:

	Form 10-K Page Number
<u>Report of Independent Registered Public Accounting Firm</u>	28
<u>Schedule II. Valuation and Qualifying Accounts</u>	29
3. Exhibits:

<u>Exhibit Index</u>	30-34
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Our separate condensed financial statements have been omitted since we meet the tests set forth in Regulation S-X Rule 4-08(e)(3). All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Windstream Corporation
Registrant

By /s/ Jeffery R. Gardner Date: February 19, 2013
Jeffery R. Gardner, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/ Anthony W. Thomas Date: February 19, 2013
Anthony W. Thomas, Chief Financial Officer and Treasurer
(Principal Financial Officer)

By /s/ Jeffery R. Gardner February 19, 2013
Jeffery R. Gardner, President and Chief Executive Officer

By /s/ John C. Eichler February 19, 2013
John C. Eichler, Controller (Principal Accounting Officer)
*Carol B. Armitage, Director

*Samuel E. Beall, III, Director

*Dennis E. Foster, Director

*Francis X. Frantz, Director

*Jeffrey T. Hinson, Director

*Judy K. Jones, Director

*William A. Montgomery, Director

*Alan L. Wells, Director

By /s/ John P. Fletcher
* (John P. Fletcher,
Attorney-in-fact)

February 19, 2013

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Report of Independent Registered Public Accounting Firm on
Financial Statement Schedule

To the Board of Directors and Shareholders of Windstream Corporation

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated February 19, 2013 appearing in this 2012 Annual Report on Form 10-K of Windstream Corporation also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

Little Rock, Arkansas

February 19, 2013

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WINDSTREAM CORPORATION
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(Dollars in Millions)

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning of Period	Column C Additions Charged to Cost and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Allowance for doubtful accounts, customers and others:					
For the years ended:					
December 31, 2012	\$29.9	\$59.4	\$—	\$46.7	(a) \$42.6
December 31, 2011	\$27.8	\$48.5	\$—	\$46.4	(a) \$29.9
December 31, 2010	\$18.5	\$48.9	\$—	\$39.6	(a) \$27.8
Valuation allowance for deferred tax assets:					
For the years ended:					
December 31, 2012	\$165.9	\$0.4	\$—	\$80.4	(b) \$85.9
December 31, 2011	\$28.8	\$1.4	\$135.7	(c) \$—	\$165.9
December 31, 2010	\$24.4	\$0.8	(d) \$3.6	(e) \$—	\$28.8
Accrued liabilities related to merger, integration and restructuring charges:					
For the years ended:					
December 31, 2012	\$12.9	\$92.8	(f) \$—	\$85.4	(g) \$20.3
December 31, 2011	\$10.5	\$71.1	(f) \$—	\$68.7	(g) \$12.9
December 31, 2010	\$6.6	\$85.0	(h) \$—	\$81.1	(g) \$10.5

Notes:

(a) Accounts charged off net of recoveries of amounts previously written off.

(b) Represents adjustment recorded through goodwill to valuation allowance for deferred taxes related to expected realization of net operating losses assumed from acquisition of PAETEC.

(c) Valuation allowance for deferred taxes was established through goodwill related to expected realization of net operating losses assumed from the acquisition of PAETEC.

(d) Valuation allowance to adjust previously recorded allowances related to prior years and the expected realization of net operating losses assumed from the acquisition of D&E.

(e) Valuation allowance for deferred taxes was established through goodwill related to expected realization of net operating losses assumed from the acquisitions of NuVox and Iowa Telecom.

(f) Costs primarily include charges for accounting, legal, broker fees and other miscellaneous costs associated with the acquisitions of NuVox, Iowa Telecom, Hosted Solutions, Q-Comm and PAETEC. In addition, we incurred employee transition costs, primarily severance related, in conjunction with the integration of NuVox, Iowa Telecom, Hosted Solutions, Q-Comm and PAETEC.

(g) Represents cash outlays for merger, integration and restructuring costs charged to expense.

(h) Costs primarily include charges for accounting, legal, broker fees and other miscellaneous costs associated with the acquisitions of D&E, Lexcom, NuVox, Iowa Telecom, Hosted Solutions and Q-Comm. In addition, we incurred employee transition costs, primarily severance related in conjunction with the integration of D&E, Lexcom, NuVox and Iowa Telecom.

See Note 10, "Merger, Integration and Restructuring Charges", to the consolidated financial statements on page F-70 in the Financial Supplement, which is incorporated herein by reference, for additional information regarding the merger, integration and restructuring charges recorded by us in 2012, 2011 and 2010.

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EXHIBIT INDEX

Number and Name

- 2.1 Agreement and Plan of Merger, dated July 31, 2011, by and among Windstream Corporation, Peach Merger Sub, Inc. and PAETEC Holding Corp. (incorporated herein by reference to Exhibit 2.1 to Current Report on Form 8-K of PAETEC dated July 31, 2011). *
- 3.1 Amended and Restated Certificate of Incorporation of Windstream Corporation (incorporated herein by reference to Exhibit 3.1 to Amendment No. 3 to the Corporation's Registration Statement on Form S-4 filed May 23, 2006). *
- 3.2 Amended and Restated Bylaws of Windstream Corporation (incorporated herein by reference to Exhibit 3.1 to the Corporation's Current Report on Form 8-K dated February 19, 2010). *
- 4.1 Indenture dated July 17, 2006 among Windstream Corporation (as successor to Alltel Holding Corp.), certain subsidiaries of Windstream as guarantors thereto and SunTrust Bank, as trustee (incorporated herein by reference to Exhibit 4.1 to the Corporation's Current Report on Form 8-K dated July 17, 2006), as amended by supplemental indentures to provide guarantees from additional subsidiaries who also guarantee the Corporation's revolving credit facilities (such guarantor subsidiaries are identified on Exhibit 21). *
- 4.2 Indenture dated February 27, 2007 among Windstream Corporation, certain subsidiaries of Windstream as guarantors thereto and U.S. Bank National Association, as trustee (incorporated herein by reference to Exhibit 4.1 to the Corporation's Current Report on Form 8-K dated March 1, 2007), as amended by supplemental indentures to provide guarantees from additional subsidiaries who also guarantee the Corporation's revolving credit facilities (such guarantor subsidiaries are identified on Exhibit 21). *
- 4.3 Indenture dated as of October 8, 2009 among Windstream Corporation, as Issuer, and U.S. Bank National Association, as Trustee (incorporated herein by reference to Exhibit 4.1 to the Corporation's Form 8-K date October 8, 2009), as amended by supplemental indentures to provide guarantees from additional subsidiaries who also guarantee the Corporation's revolving credit facilities (such guarantor subsidiaries are identified on Exhibit 21). *
- 4.4 Indenture dated as of July 19, 2010 among Windstream Corporation, as Issuer, and U.S. Bank National Association, as Trustee (incorporated herein by reference to Exhibit 4.1 to the Corporation's Form 8-K dated July 19, 2010), as amended by supplemental indentures to provide guarantees from additional subsidiaries who also guarantee the Corporation's revolving credit facilities (such guarantor subsidiaries are identified on Exhibit 21). *
- 4.5 Indenture dated as of October 6, 2010 among Windstream Corporation, as Issuer, and U.S. Bank National Association, as Trustee (incorporated herein by reference to Exhibit 4.1 to the Corporation's Form 8-K dated October 6, 2010), as amended by supplemental indentures to provide guarantees from additional subsidiaries who also guarantee the Corporation's revolving credit facilities (such guarantor subsidiaries are identified on Exhibit 21). *
- 4.6 Indenture dated March 16, 2011 among Windstream Corporation, as Issuer, and U.S. Bank National Association, as Trustee (incorporated herein by reference to Exhibit 4.1 to the Corporation's Form 8-K dated March 16, 2011). *

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4.7 Indenture dated as of March 28, 2011 among Windstream Corporation, as Issuer, and U.S. Bank National Association, as Trustee (incorporated herein by reference to Exhibit 4.1 to the Corporation's Form 8-K dated 28, 2011). *

4.8 Indenture dated as of November 22, 2011 among Windstream Corporation, as Issuer, and U.S. Bank National Association, as Trustee (incorporated herein by reference to Exhibit 4.1 to the Corporation's Form 8-K dated November 22, 2011). *

4.9 Indenture dated as of January 23, 2013, among Windstream Corporation, as Issuer, and US Bank National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Corporation's Form 8-K dated January 23, 2013). *

4.10 Indenture dated June 29, 2009 among PAETEC Holding Corp., certain subsidiaries of PAETEC as guarantors, and The Bank of New York Mellon, trustee (incorporated herein by reference to Exhibit 4.1 * to the PAETEC's Current Report on Form 8-K dated June 29, 2009).

* Incorporated herein by reference as indicated.

(a) Filed herewith.

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EXHIBIT INDEX, Continued

Number and Name

- 4.11 Indenture dated December 2, 2010 among PAETEC Escrow Corporation, as guarantor, and The Bank of New York Mellon Trust Company, N.A. (incorporated herein by reference to Exhibit 4.1 to the PAETEC's Current Report on Form 8-K dated December 2, 2010), as assumed by PAETEC Holding Corp. as successor issuer to PAETEC Escrow Corporation pursuant to a First Supplemental Indenture dated as of December 6, 2010. *
- 4.12 Form of 8 1/8% Senior Note due 2013 of Windstream Corporation (as successor to Alltel Holding Corp.) (incorporated herein by reference to Note included in Exhibit 4.1 to the Corporation's Current Report on Form 8-K dated July 17, 2006). *
- 4.13 Form of 7.0% Senior Note due 2019 of Windstream Corporation (incorporated herein by reference to Note included in Exhibit 4.1 to the Corporation's Current Report on Form 8-K dated March 1, 2007). *
- 4.14 Form of 7.875% Senior Note due 2017 of Windstream Corporation (incorporated herein by reference to Exhibit 4.1 to the Corporation's Form 8-K date October 8, 2009). *
- 4.15 Form of 8.125% Senior Note due 2018 of Windstream Corporation (incorporated herein by reference to Note included in Exhibit 4.1 to the Corporation's Current Report on Form 8-K dated July 19, 2010). *
- 4.16 Form of 7.75% Senior Note due 2020 of Windstream Corporation (incorporated herein by reference to Note included in Exhibit 4.1 to the Corporation's Current Report on Form 8-K dated October 6, 2010). *
- 4.17 Form of 7.5% Senior Notes due 2023 of Windstream Corporation (incorporated herein by reference to Note included in Exhibit 4.1 to the Corporation's Current Report on Form 8-K dated as of March 16, 2011). *
- 4.18 Form of 7.75% Senior Notes due 2021 of Windstream Corporation (incorporated herein by reference to Note included in Exhibit 4.1 to the Corporation's Current Report on Form 8-K dated as of March 28, 2011). *
- 4.19 Form of 7.5% Senior Notes due 2022 of Windstream Corporation (incorporated herein by reference to Note included in Exhibit 4.1 to the Corporation's Current Report on Form 8-K dated as of November 22, 2011). *
- 4.20 Form of 6.375% Senior Notes due 2023 of Windstream Corporation (incorporated by reference to Note included in Exhibit 4.1 to the Corporation's Form 8-K dated January 23, 2013). *
- 4.21 Form of 8 7/8% Senior Secured Notes due 2017 of PAETEC Holding Corp. (incorporated herein by reference to Note included in Exhibit 4.1 to PAETEC's Current Report on Form 8-K dated June 29, 2009). *
- 4.22 Guaranty, dated as of December 1, 2011, by Windstream Corporation guaranteeing obligations of PAETEC Holding Corp. under its 8 7/8% Senior Secured Notes due 2017 (incorporated herein by reference to Exhibit 4.2 to the Corporation's Form 8-K date November 30, 2011). *
- 4.23 *

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Form of 9 7/8% Senior Notes due 2018 by PAETEC Escrow Corporation (incorporated herein by reference to Noted included in Exhibit 4.1 to PAETEC's Current Report on Form 8-K dated December 2, 2010), as assumed by PAETEC Holding Corp. as successor issuer to PAETEC Escrow Corporation pursuant to a First Supplemental Indenture dated as of December 6, 2010.

4.24 Guaranty, dated as of December 1, 2011, by Windstream Corporation guaranteeing obligations of PAETEC Holding Corp. under its 9 7/8% Senior Secured Notes due 2018 (incorporated herein by reference to Exhibit 4.3 to the Corporation's Form 8-K date November 30, 2011). *

10.1 Fifth Amended and Restated Credit Agreement, dated as of January 23, 2013, among Windstream Corporation, as borrower, certain lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent, certain Co-Documentation Agents, J.P. Morgan Securities, Inc., Bookrunner and Lead Arranger, and certain Joint Bookrunners and Joint Arrangers (incorporated by reference to Exhibit A to Exhibit 10.1 to the Corporation's Form 8-K dated January 23, 2013). *

10.2 Director Compensation Program dated February 6, 2013. (a)

10.3 Form of Restricted Shares Agreement (Non-Employee Directors) entered into between Windstream Corporation and non-employee directors (incorporated herein by reference to Exhibit 10.3 to the Corporation's Current Report on Form 8-K dated February 6, 2007). *

* Incorporated herein by reference as indicated.

(a) Filed herewith.

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EXHIBIT INDEX, Continued

Number and Name

10.4	Windstream Corporation Performance Incentive Compensation Plan (incorporated herein by reference to Exhibit 10.8 to the Corporation's Current Report on Form 8-K dated July 17, 2006).	*
10.5	Amendment No. 1 to Windstream Corporation Performance Incentive Compensation Plan (incorporated by reference to Exhibit 10.4 to the Corporation's Current Report on Form 8-K dated January 4, 2008).	*
10.6	Windstream Corporation Benefit Restoration Plan, amended and restated as of January 1, 2008 (incorporated herein by reference to Exhibit 10.2 to the Corporation's Current Report on Form 8-K dated January 4, 2008).	*
10.7	Windstream Corporation 2007 Deferred Compensation Plan, amended and restated as of January 1, 2008 (incorporated herein by reference to Exhibit 10.1 to the Corporation's Current Report on Form 8-K dated January 4, 2008).	*
10.8	Form of Indemnification Agreement entered into between Windstream Corporation and its directors and executive officers (incorporated herein by reference to Exhibit 10.13 to the Corporation's Current Report on Form 8-K dated July 17, 2006).	*
10.9	Form of Restricted Shares Agreement (Officers: Restricted Stock) entered into between Windstream Corporation and its executive officers (incorporated herein by reference to Exhibit 10.1 to the Corporation's Current Report on Form 8-K dated February 6, 2009).	*
10.10	Form of Restricted Shares Agreement (Officers: Performance-Based Restricted Stock) entered into between Windstream Corporation and its executive officers (incorporated herein by reference to Exhibit 10.2 to the Corporation's Current Report on Form 8-K dated February 6, 2009).	*
10.11	Form of Restricted Shares Agreement (Officers: Performance-Based Restricted Stock-Clawback Policy/Accrued Dividends) entered into between Windstream Corporation and its executive officers (incorporated herein by reference to Exhibit 10.2 to the Corporation's Current Report dated February 19, 2010).	*
10.12	Form of Restricted Shares Agreement (Officers: Restricted Stock-Clawback Policy) entered into between Windstream Corporation and its executive officers (incorporated herein by reference to Exhibit 10.1 to the Corporation's Current Report on Form 8-K dated February 19, 2010).	*
10.13	Form of Performance Based Restricted Stock Unit Agreement (Officers: RSU-Clawback Policy) entered into between Windstream Corporation and its executive officers (incorporated herein by reference to Exhibit 10.1 to the Corporation's Current Report on Form 8-K dated February 8, 2011).	*
10.14	Amended and Restated Employment Agreement, dated as of January 1, 2008, between Windstream Corporation and Jeffery R. Gardner (incorporated herein by reference to Exhibit 10.6 to the Corporation's Current Report on Form 8-K dated January 4, 2008).	*
10.15	Amendment to Employment Agreement, dated as of December 21, 2009, between Windstream Corporation and Jeffery R. Gardner (incorporated herein by reference to Exhibit 10.1 to Corporation's Current Report on Form 8-K dated December 21, 2009).	*

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10.16 Form of Change-In-Control Agreement, dated as of January 1, 2013, entered into between Windstream Corporation and certain executive officers (incorporated by reference to Exhibit 10.1 to the Corporation's Form 8-K dated January 1, 2013). *

10.17 Letter Agreement, dated as of November 7, 2006, between the Windstream Corporation and Francis X. Frantz (incorporated herein by reference to Exhibit 10.3 to the Corporation's Current Report on Form 8-K dated November 13, 2006). *

10.18 Windstream 2006 Equity Incentive Plan (as amended and restated effective February 17, 2010 (incorporated by reference to Appendix A to the Corporation's Proxy Statement dated March 26, 2010)). *

10.19 PAETEC Holding Corp. 2011 Omnibus Incentive Plan. (incorporated by reference to Exhibit 10.1 to PAETEC Holding Corp.'s Current Report on Form 8-K filed with the SEC on June 3, 2011) for equity awards issued on or prior to November 30, 2011. *

10.20 PAETEC Holding Corp. 2011 Amended and Restated Omnibus Incentive Plan, as amended for equity awards issued after November 30, 2011. *

* Incorporated herein by reference as indicated.

(a) Filed herewith.

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EXHIBIT INDEX, Continued

Number and Name

10.21	PAETEC Holding Corp. 2007 Omnibus Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 to the PAETEC's Form 8-K dated May 20, 2008).	*
10.22	PAETEC Corp. 2001 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.10.1 to the Registration Statement on Form S-4 filed by PAETEC Holding Corp. with the SEC on November 13, 2006 (SEC File No. 333-138594)).	*
10.23	Form of US LEC Corp. 1998 Omnibus Stock Plan, as amended (incorporated by Exhibit (d) Schedule TO filed by US LEC Corp. with the SEC on February 23, 2006 (File No. 005-54177)).	*
10.24	McLeodUSA Incorporated 2006 Omnibus Equity Plan (incorporated by reference to Exhibit 10.1 to Registration Statement on Form S-8 filed by PAETEC Holding Corp. with the SEC on February 8, 2008 (SEC File No. 333-149130)).	*
10.25	PAETEC Communications, Inc. Agent Incentive Plan, as amended and restated (filed as Exhibit 4.2.1 to PAETEC Holding Corp.'s Amendment No. 2 to Registration Statement on Form S-4 (SEC File Number 333-138594).	*
10.26	PAETEC Holding Corp. 2009 Agent Incentive Plan (filed as Exhibit 4.7 to PAETEC Holding Corp.'s Registration Statement on Form S-3 (SEC File Number 333-159344) and incorporated herein by reference).	*
10.27	Registration Rights Agreement dated as of January 23, 2013 among Windstream Corporation, certain subsidiaries of Windstream, as guarantors, and Wells Fargo Securities, LLC, as representative (incorporated by reference to Exhibit 4.3 to the Corporation's Form 8-K dated January 23, 2013).	*
21	Listing of Subsidiaries.	(a)
23	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.	(a)
24	Power of Attorney.	(a)
31(a)	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	(a)
31(b)	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	(a)
32(a)	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	(a)
32(b)	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	(a)
101.INS	XBRL Instance Document	(a)

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- 101.SCHXBRL Taxonomy Extension Schema Document (a)
 - 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document (a)
 - 101.DEF XBRL Taxonomy Extension Definition Linkbase Document (a)
 - 101.LAB XBRL Taxonomy Extension Label Linkbase Document (a)
 - 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document (a)
- * Incorporated herein by reference as indicated.
(a) Filed herewith.

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WINDSTREAM CORPORATION
FINANCIAL SUPPLEMENT
TO ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2012

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless the context requires otherwise, the use of the terms "Windstream," "we," "us" and "our" in this Management's Discussion and Analysis refers to Windstream Corporation and its consolidated subsidiaries.

The following sections, to the extent practicable, provide an overview of our results of operations and highlight key trends and uncertainties in our business. Certain statements constitute forward-looking statements. See "Forward-Looking Statements" at the end of this discussion for additional factors relating to such statements, and see "Risk Factors" in Item 1A of Part I of this annual report for a discussion of certain risk factors applicable to our business, financial condition and results of operations.

OVERVIEW

Our vision is to become the premier enterprise communications and services provider in the United States while maintaining our strong, stable consumer business. Windstream provides advanced communications and technology solutions, including managed services and cloud computing, to businesses nationwide. In addition to business services, we offer broadband, voice and video services to consumers in primarily rural markets. We have operations in 48 states and the District of Columbia, a local and long-haul fiber network spanning approximately 115,000 miles, a robust business sales division and 23 data centers.

EXECUTIVE SUMMARY

We made significant progress on our strategy to grow business and consumer broadband revenues to offset continuing pressure on our consumer voice and long-distance revenues and wholesale revenues during 2012 and 2011. Revenues from businesses and consumer broadband were 68.8 percent of total revenues for the year ended December 31, 2012, as compared to 61.2 percent in the same period in 2011.

Key strategic activities during 2012 included:

- the continued integration of PAETEC, which transformed us into a national provider of business services and included an attractive customer base of medium and large businesses and significantly enhanced our capabilities in strategic growth areas, including IP based services, cloud computing and managed services;

- continued focus on revenue growth opportunities in our business service areas;

- significant success-based capital investments in our fiber network, designed to accommodate network capacity requirements for wireless carriers as a result of growing wireless data usage;

- the review of our management structure to increase the efficiency of decision-making and position ourselves for continued success, where approximately 350 management positions were eliminated, resulting in annualized savings of approximately \$40.0 million;

- activities to improve our debt profile including pushing out maturities, lowering interest costs, and creating sufficient availability under our revolver to repay 2013 debt maturities; and

- the opening of new state-of-the-art data centers in Little Rock, Arkansas, and McLean, Virginia, as well as expanded our data centers in Charlotte, North Carolina, Boston, Massachusetts, and Raleigh, North Carolina, to meet the growing business demand for cloud-based and dedicated managed services and underscore our commitment to our growing business customer base nationwide.

These activities, in conjunction with the strategic acquisitions we completed in prior years, continue our focus on strategic revenue growth and cost management.

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BUSINESS TRENDS

The following discussion highlights key trends affecting our business.

Business communications services: Demand for advanced communications services is expected to drive growth in revenues from business customers. To meet this demand, we continue to expand our capabilities in integrated voice and data services, which deliver voice and broadband services over a single Internet connection. We also offer multi-site networking services which provide a fast and private connection between business locations as well as a variety of other data services. We view this as a strategic growth area, but we are subject to competition from other carriers and cable television companies, which could suppress growth. See "Competition" in Item 1 of Part I of this Annual Report for more details.

Data center services: Many businesses are moving towards cloud computing and managed services as an alternative to a traditional information technology ("IT") infrastructure. Our data centers are capable of delivering those services, and we are actively investing in data center expansion in order to meet the growing demand for these types of services. In addition to cloud computing and managed services, our data centers offer colocation services, in which we provide a safe, secure environment for storage of servers and networking equipment.

Wireless backhaul: As wireless data usage grows, wireless carriers need additional bandwidth on the wireline network to accommodate the additional wireless traffic. We have made significant success-based capital investments to provide backhaul services to wireless carriers. These investments include building out fiber to new wireless towers and replacing copper facilities with fiber facilities to wireless towers we already serve. We spent approximately \$270.5 million in fiber-to-the-tower investments during 2012 and we expect to continue to make significant success-based capital investments in 2013 to offer additional wireless backhaul services to wireless carriers; however, fiber to the tower investments will decrease in 2013.

Consumer high-speed Internet: New consumer high-speed Internet additions are slowing as a result of our already high penetration of 71 percent of primary residential lines. We expect the pace of high-speed Internet customer growth to continue to slow as the number of households without high-speed Internet service shrinks and our penetration continues to increase. However, we believe growing customer demand for faster speeds and value-added services, such as online security and back-up, will drive growth in consumer high-speed Internet revenues. We are continuing to focus on increasing our broadband speeds available to customers. As of December 31, 2012, we could deliver speeds of 3 Megabits per second ("Mbps") to approximately 97 percent of our addressable lines, and speeds of 6 Mbps, 12 Mbps and 24 Mbps are available to approximately 73 percent, 48 percent and 13 percent of our addressable lines, respectively.

Consumer voice line losses: Voice and switched access revenues will continue to be adversely impacted by future declines in voice lines due to competition from cable television companies, wireless carriers and providers using other emerging technologies. To combat competitive pressures, we continue to emphasize our bundled products and services. Our consumers can bundle voice, high-speed Internet and video services, providing one convenient billing solution and bundle discounts. We believe that product bundles positively impact customer retention, and the associated discounts provide our customers the best value for their communications and entertainment needs. As of December 31, 2012, all of our voice lines had wireless competition and approximately 70 percent of our voice lines had fixed-line voice competition. Consumer lines decreased 86,000, or 4.5 percent during 2012, primarily due to the effects of competition.

Synergies and operational efficiencies: We continually strive to identify opportunities for operational efficiencies, in the context of both our acquired businesses and legacy operations. During the year ended December 31, 2012, we recognized approximately \$171.0 million in synergies from our acquisitions completed since the beginning of 2010,

primarily related to workforce and network efficiencies. In addition to acquisition-related synergies, we also evaluate our legacy operations for operational efficiency. On May 31, 2012, we announced the review of our management structure to increase the efficiency of decision-making, to ensure our management structure is as simple and as responsive to customers as possible and position ourselves for continued success. We eliminated approximately 350 management positions as a part of the restructuring, which was completed in the third quarter of 2012 and resulted in severance related costs of \$22.4 million. The changes will result in annualized savings of approximately \$40.0 million. During 2010, we announced a workforce reduction which resulted in annual pretax savings of approximately \$20.0 million. We expect to continue to evaluate our operations for these opportunities.

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ACQUISITIONS AND DISPOSITIONS

Recent transactions and their value to our business are discussed below. For financial details of each acquisition, refer to Note 3 of the financial statements.

Acquisitions

PAETEC - On November 30, 2011, we completed the acquisition of PAETEC, a communications carrier focused on business customers. The PAETEC transaction enhances our capabilities in strategic growth areas, including IP-based communications services, cloud computing and managed services. It significantly advances our strategy to drive top-line revenue growth by expanding our focus on business and fiber services.

The PAETEC transaction:

- adds an attractive base of medium-to-large sized business customers;
- expands our existing business service offerings;
- provides opportunities for approximately \$100.0 million in pre-tax operating cost and \$10.0 million in capital synergies;
- creates a nationwide fiber network, adding 36,700 fiber miles; and
- adds seven data centers.

Q-Comm - On December 2, 2010, we completed the acquisition of Q-Comm Corporation ("Q-Comm"). The transaction included Q-Comm's wholly-owned subsidiaries Kentucky Data Link, Inc. ("KDL"), a regional fiber services provider with 30,000 fiber miles, and Norlight, Inc. ("Norlight"), a communications services provider with approximately 5,500 business customers. This transaction significantly increased the scale of our fiber network, allowing us to reach more business customers and compete for more wireless backhaul contracts. KDL's fiber network also allows for significant operating synergies, allowing us to carry more traffic on our own network and avoid incremental spend to other carriers for this service.

Hosted Solutions - On December 1, 2010, we completed the acquisition of Hosted Solutions Acquisition, LLC ("Hosted Solutions"), which operates data centers in the eastern United States. Hosted Solutions provides the infrastructure to offer many advanced data services, such as cloud computing, managed hosting and other managed services, on a wide scale. As a result of this acquisition, we added five state-of-the-art Statement on Standards for Attestation Engagements ("SSAE") 16 certified data centers and approximately 600 business customers.

Iowa Telecom - On June 1, 2010, we completed the acquisition of Iowa Telecommunications Services, Inc. ("Iowa Telecom"), a regional communications services provider. This acquisition added 247,000 voice lines, 96,000 high-speed Internet customers and 25,000 video customers in Iowa and Minnesota. This acquisition provided us increased scale, synergies and expanded operating presence in contiguous markets.

NuVox - On February 8, 2010, we completed the acquisition of NuVox Inc. ("NuVox"), a communications provider based in Greenville, South Carolina. The acquisition of NuVox marked our first considerable move to execute our business-focused growth strategy and was a critical point in our transformation from a traditional telephone company to a business-focused provider of advanced data and communications services. In addition to the customers acquired and new services we were able to offer, we retained a significant number of employees with experience geared towards business customers. The NuVox acquisition added 104,000 business customers in the Southeastern and Midwestern United States.

Dispositions

On June 15, 2012, we completed the sale of the energy business acquired as part of PAETEC, which sells electricity to business and residential customers, primarily in certain geographic regions in New York state, as a competitive electricity supplier for approximately \$6.1 million in total consideration. These operations were not central to our strategic goals in our core communications business.

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ORGANIZATION AND RESULTS OF OPERATIONS

We provide a wide range of telecom services, from advanced data solutions for businesses to basic voice services. Our sales, marketing and customer support teams are structured based upon the type of customer they serve. We deliver these services over owned or leased network facilities. Our corporate support teams, such as finance and accounting, human resources and legal, support our operations as a whole. See a detailed discussion and analysis of revenues and sales in our discussion below of consolidated operating results.

The following table reflects our consolidated operating results as of December 31:

(Dollars in millions) (a,b)	2012	2011	2010
Revenues and sales:			
Service revenues:			
Business	\$3,611.4	\$2,098.0	\$1,577.5
Consumer	1,339.5	1,378.3	1,372.8
Wholesale	708.0	547.3	555.9
Other	266.2	131.0	115.2
Total service revenues	5,925.1	4,154.6	3,621.4
Product sales	231.2	126.6	89.3
Total revenues and sales	6,156.3	4,281.2	3,710.7
Costs and expenses:			
Cost of services (exclusive of depreciation and amortization included below)	2,692.4	1,691.1	1,331.9
Cost of products sold	210.0	105.3	74.9
Selling, general, and administrative	976.0	602.7	491.7
Depreciation and amortization	1,297.6	847.5	693.7
Merger and integration costs	65.4	69.8	77.3
Restructuring charges	27.4	1.3	7.7
Total costs and expenses	5,268.8	3,317.7	2,677.2
Operating income	887.5	963.5	1,033.5
Other income (expense), net	4.6	(0.1)	(3.5)
Gain (loss) on early extinguishment of debt	1.9	(136.1)	—
Interest expense	(625.1)	(558.3)	(521.7)
Income from continuing operations before income taxes	268.9	269.0	508.3
Income taxes	100.2	99.4	195.6
Income from continuing operations	168.7	169.6	312.7
Discontinued operations, net of tax	(0.7)	(0.1)	—
Net income	\$168.0	\$169.5	\$312.7
Operating Metrics: (Thousands)			
Business Operating Metrics:			
Customers			
Enterprise	177.3	167.2	62.9
Small business	460.8	495.6	407.7
Total customers (c)	638.1	662.8	470.6
Carrier special access circuits	107.2	112.0	102.4
Consumer Operating Metrics:			
Voice lines	1,841.9	1,927.9	2,012.4
High-speed Internet	1,214.5	1,207.8	1,159.1

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Digital television customers	426.1	441.2	426.7
Total consumer connections	3,482.5	3,576.9	3,598.2

(a) Results from operations include post-acquisition results from NuVox, Iowa Telecom, Hosted Solutions, Q-Comm, and PAETEC operations, (collectively known as the "Acquired Companies"). In the discussion and analysis provided below regarding changes in consolidated revenues and expenses in 2012 and 2011, the impact of the acquisitions on

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these changes is considered to be the revenues and expenses recognized during the period of each year for which results from the acquired operations are not included in the comparative period of the prior year.

- (b) Certain prior year amounts have been reclassified to conform to the current year financial statement presentation. These reclassifications did not impact net or comprehensive income. Please see Note 2 for additional information.
- (c) Total customers include each individual business customer location to which we provide service and exclude carrier special access circuits.

Business Service Revenues

Business service revenues include revenues from integrated voice and data services, advanced data and traditional voice and long-distance services to enterprise and small-business customers. Revenues from other carriers for special access circuits and fiber connections are also included. We expect business service revenues to be favorably impacted by increasing demand for data services such as integrated data and voice services, multi-site networking and data center services. As wireless data usage grows and fourth generation ("4G") networks are expanded, we expect to provide special access services to support the capacity needs of wireless carriers.

We experience competition in the business channel primarily from other carriers, including traditional telephone companies and competitive providers. Cable television companies are also a source of competition, primarily for small business customers, but have communicated their intention to compete for larger customers by expanding their product and sales capabilities.

For the twelve months ended December 31, 2012, business customers decreased by approximately 24,700 or 3.7 percent. Our growth in enterprise customers is outpaced by losses in small business customers, typically due to competition from cable companies. However, our enterprise customers are driving growth in overall revenue through purchases of integrated voice and data services, data center and managed services, and advanced data services such as multi-site networking.

Despite the opportunities for growth from business services, competition and weakness in the economy may have the effect of suppressing revenue growth. In addition, business voice and long-distance service revenues continue to decline due to competition and migration to more advanced integrated voice and data services.

The following table reflects the primary drivers of year-over-year changes in business service revenues:

(Millions)	Twelve Months Ended December 31, 2012		Twelve Months Ended December 31, 2011	
	Increase (Decrease)	%	Increase (Decrease)	%
Due to acquired companies	\$1,446.0		\$468.7	
Due to changes in data and integrated services revenues (a)	49.6		54.9	
Due to increases in carrier revenues (b)	17.9		46.0	
Due to increases in data center and managed service revenues (c)	13.1		2.2	
Due to increases in high-speed Internet revenues	3.0		(0.2))
Due to decreases in voice, long distance and miscellaneous revenues (d)	(16.2)	)	(51.1))
Total changes in business revenues	\$1,513.4	72 %	\$520.5	33 %

- (a) Increases in data and integrated services revenues were primarily due to demand for advanced data services and customer migration to our integrated voice and data services, previously discussed.
- (b) Increases in carrier revenues, which primarily represent monthly recurring charges for dedicated circuits, were attributable to demand from wireless and other carriers, previously discussed.

(c) Increases in data center and managed service revenues, which includes monitoring, maintenance and support services for business customers, is due to increased demand and incremental sales. We opened new data centers, as well as expanded existing data centers, during 2012 to support this increase in demand.

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Decreases in traditional voice service revenues were primarily attributable to competition and migration of existing customers to integrated services and bundled offerings. These declines were partially offset by \$8.9 million due to (d) the implementation of the access recovery charge ("ARC"), which is a monthly charge established by the FCC designed to mitigate revenue reductions resulting from intercarrier compensation reform implemented in the third quarter of 2012.

Consumer Service Revenues

Consumer service revenues are generated from the provision of high-speed Internet, voice and video services to consumers. We expect the trend of consumer voice line loss to continue as a result of competition from wireless carriers, cable television companies and other providers using emerging technologies. For the twelve months ended December 31, 2012, consumer voice lines decreased by approximately 86,000, or 4.5 percent. Increasing revenues from high-speed Internet and related services helped offset some of the losses in consumer voice revenues. Demand for faster broadband speeds and Internet-related services, such as virus protection and online data backup services, are expected to favorably impact consumer high-speed Internet revenues, offsetting some of the decline in consumer voice revenues.

For the twelve months ended December 31, 2012, consumer high-speed Internet customers increased by approximately 7,000 or 0.6 percent. As of December 31, 2012, we provided high-speed Internet service to approximately 42 percent of total voice lines in service and approximately 71 percent of primary residential lines in service. As of December 31, 2012, approximately 77 percent of our total voice lines had high-speed Internet competition, primarily from cable service providers. We do not expect significant additional cable expansions into our service areas during 2013, but we could experience some increased competition from high-speed Internet offerings of wireless competitors. We expect the pace of high-speed Internet customer growth to slow as the number of households without high-speed Internet service shrinks and our penetration continues to increase.

To combat competitive pressures in our markets, we emphasize our bundled service strategy and enhancements to our network to offer faster Internet speeds. Service bundles provide discounts and other incentives for customers to bundle their voice, long distance, high-speed Internet and video services and have positively impacted our operating trends.

The following table reflects the primary drivers of year-over-year changes in consumer service revenues:

(Millions)	Twelve Months Ended December 31, 2012		Twelve Months Ended December 31, 2011	
	Increase (Decrease)	%	Increase (Decrease)	%
Due to acquired companies	\$—		\$43.1	
Due to increases in high-speed Internet revenues (a)	17.9		36.3	
Due to changes in miscellaneous revenues	(4.7	)	1.8	
Due to decreases in voice and long distance revenues (b)	(52.0	)	(75.7)
Total changes in consumer revenues	\$(38.8	) (3)%	\$5.5	— %

(a) Increases in high-speed Internet revenues were primarily due to the increase in high-speed Internet customers, continued migration to higher speeds and increased sales of value added services, as previously discussed.

(b) Decreases in voice service revenues were primarily attributable to declines in voice lines. These declines were partially offset by \$4.8 million due to the implementation of the ARC, described above.

Wholesale Service Revenues

Wholesale service revenues include switched access revenues, Universal Service Fund ("USF") revenues and voice and data services sold on a wholesale basis.

Switched access revenues include usage sensitive revenues from long distance companies and other carriers for access to our network in connection with the completion of long distance calls, as well as reciprocal compensation received from wireless and other local connecting carriers for the use of our facilities. USF revenues are government subsidies designed to partially offset the cost of providing wireline services in high-cost areas. In addition, we offer our voice and data services on a wholesale basis to other carriers.

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Revenues from these services are expected to decline due to voice line losses and reductions in switched access rates.

The following table reflects the primary drivers of year-over-year changes in wholesale service revenues:

(Millions)	Twelve Months Ended December 31, 2012		Twelve Months Ended December 31, 2011	
	Increase (Decrease)	%	Increase (Decrease)	%
Due to acquired companies	\$234.1		\$43.6	
Due to changes in federal USF revenues (a)	22.5		(6.2))
Due to decreases in voice and other revenues	(0.4)	)	(1.1))
Due to decreases in state USF revenues (b)	(2.7)	)	(7.3))
Due to decreases in switched access revenues (c)	(92.8)	)	(37.6))
Total changes in wholesale revenues	\$160.7	29 %	\$(8.6)	) (2)%

Increases in federal USF revenues were primarily due to the implementation of the access recovery mechanism ("ARM") during the third quarter of 2012. The ARM is additional federal universal service support available to help mitigate revenue losses from intercarrier compensation reform not covered by the ARC, previously discussed. Decreases in federal USF revenues in 2011 resulted from decreases in federal funds received and line loss.

(a) Decreases in state USF revenues were attributable to the decline in voice lines and changes in eligible recoverable costs.

Decreases in switched access revenues in 2012 were primarily due to the impact of intercarrier compensation reform and continued declines in voice lines. The ARC and ARM, discussed previously, are designed to help mitigate the revenue losses resulting from intercarrier compensation reform. Decreases in 2011 were primarily due to continued declines in voice lines and the phased reduction on interstate access rates for our subsidiaries that converted to price cap regulation.

Other Service Revenues

Other service revenues include USF surcharge revenues, revenues from software, other miscellaneous services and consumer revenues generated in markets where we lease the connection to the customer premise, and we no longer offer new consumer service in those areas. As a result, we expect other service revenues to decline as existing customers disconnect.

The following table reflects the primary drivers of year-over-year changes in other service revenues:

(Millions)	Twelve Months Ended December 31, 2012		Twelve Months Ended December 31, 2011	
	Increase (Decrease)	%	Increase (Decrease)	%
Due to acquired companies	\$142.3		\$25.2	
Due to increases in pass through taxes and other surcharges	4.5		1.7	
Due to decreases in other	(11.6)	)	(11.1))
Total changes in other revenues	\$135.2	103 %	\$15.8	14 %

Product Sales

Product sales consist of sales of various types of communications equipment to our customers. Business product sales includes high-end data and communications equipment which facilitate the delivery of advanced data and voice services to our business customers. Consumer product sales include high-speed Internet modems, home networking equipment, computers and phones. We also sell network equipment to contractors on a wholesale basis.

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The following table reflects the primary drivers of year-over-year changes in product sales:

(Millions)	Twelve Months Ended December 31, 2012		Twelve Months Ended December 31, 2011	
	Increase (Decrease)	%	Increase (Decrease)	%
Due to acquired companies	\$108.7		\$20.8	
Due to increases in contractor sales (a)	16.5		14.5	
Due to decreases in consumer product sales	(11.9	)	(1.5)
Due to changes in business product sales	(8.7	)	3.5	
Total changes in product sales	\$104.6	83 %	\$37.3	42 %

(a) Increases in contractor sales were primarily due to increased sales of outside plant materials.

Cost of Services

Cost of services expense primarily consists of charges incurred for network operations, interconnection, bad debt and business taxes. Network operations charges include salaries and wages, benefits, materials, contractor costs and IT support. Interconnection consists of charges incurred to access the public switched network and transport traffic to the Internet, including charges to lease network components required for service delivery in markets where we do not own the primary network infrastructure.

The following table reflects the primary drivers of year-over-year changes in cost of services:

(Millions)	Twelve Months Ended December 31, 2012		Twelve Months Ended December 31, 2011	
	Increase (Decrease)	%	Increase (Decrease)	%
Due to acquired companies	\$1,045.0		\$276.1	
Due to increases in third-party costs for ancillary services (a)	11.2		12.8	
Due to increases in interconnection expense (b)	6.2		1.1	
Due to increases in federal USF expenses (c)	5.5		2.1	
Due to changes in postretirement expense (d)	2.7		(14.5)
Due to changes in other	4.2		(4.9)
Due to changes in pension expense (e)	(73.5	)	86.5	
Total changes in cost of services	\$1,001.3	59 %	\$359.2	27 %

(a) Increases in charges incurred to provide third-party services driven by sales of ancillary products as well as costs incurred for product offerings.

(b) Increases in interconnection expense were attributable to increased purchases of circuits, including circuits to service the growth in data customers, as well as higher capacity circuits to service existing customers and increase the transport capacity of our network, partially offset by the favorable impact of network efficiency projects and rate reductions.

(c) Increases in federal USF contributions in 2012 and 2011 were primarily due to an increase in the USF contribution factor from 12.9 percent to 15.3 percent to 17.4 percent for the years ended December 31, 2010, 2011 and 2012, respectively. This increase resulted in a proportionate increase in surcharge revenues which is included in other service revenues.

(d) Decreases in 2011 postretirement expense were primarily attributable to a curtailment gain recognized during the third quarter of 2011 as a result of the elimination of basic retiree life insurance coverage for certain and future retirees effective January 1, 2012. During the second quarter of 2012 there was a curtailment gain recognized related to the elimination of all benefits for certain current and future retirees.

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The decrease in 2012 was primarily due to our pension plan assets performing better than expected, partially offset (e) by a decrease in the discount rate from 4.64 percent to 3.85 percent. The increase in pension expense in 2011 was primarily due to a decline in the discount rate from 5.31 percent to 4.64 percent. Lower returns on pension plan assets also contributed to the increase in pension expense in 2011.

Cost of Products Sold

Cost of products sold represents the cost of equipment sales to customers.

The following table reflects the primary drivers of year-over-year changes in cost of products sold:

(Millions)	Twelve Months Ended December 31, 2012		Twelve Months Ended December 31, 2011	
	Increase (Decrease)	%	Increase (Decrease)	%
Due to acquired companies	\$93.1		\$16.3	
Due to increases in costs of contractor sales (a)	17.4		14.1	
Due to decreases in consumer costs of products sold	(1.1)	)	(3.5))
Due to changes in equipment sales to business customers	(4.7)	)	3.5	
Total increases in cost of products sold	\$104.7	99 %	\$30.4	41 %

(a) Increases in contractor cost of products sold for both periods were consistent with the changes in contractor sales in 2012 and 2011.

Selling, General and Administrative ("SG&A")

SG&A expenses result from sales and marketing efforts, advertising, IT support, costs associated with corporate and other support functions, and professional fees. These expenses include associated salaries, wages and employee benefits not directly associated with the provision of services.

The following table reflects the primary drivers of year-over-year changes in SG&A expenses:

(Millions)	Twelve Months Ended December 31, 2012		Twelve Months Ended December 31, 2011	
	Increase (Decrease)	%	Increase (Decrease)	%
Due to acquired companies	\$400.9		\$83.2	
Due to changes in medical insurance (a)	17.8		(4.2))
Due to increases in other costs	8.3		2.0	
Due to changes in postretirement expense (b)	0.8		(4.3))
Due to changes in sales and marketing expenses (c)	(29.1)	)	7.6	
Due to changes in pension expense (d)	(25.4)	)	26.7	
Total changes in SG&A	\$373.3	62 %	\$111.0	23 %

(a) Increases in medical insurance in 2012 were primarily due to increases in medical claims and related costs.

(b) Decreases in 2011 postretirement expense were primarily attributable to a curtailment gain recognized during the third quarter of 2011 as a result of the elimination of basic retiree life insurance coverage for certain and future retirees effective January 1, 2012. During the second quarter of 2012 there was a curtailment gain recognized

related to the elimination of all benefits for certain current and future retirees. See Note 8 for additional information.

Decreases in sales and marketing expenses in 2012 were due to lower compensation costs for the business channel (c) and decreased marketing and advertising expenses. Increases in sales and marketing expenses for 2011 were due to commissions costs for the business channel and increased advertising expenses.

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The decrease in 2012 was primarily due to our pension plan assets performing better than expected, partially offset by a decrease in the discount rate from 4.64 percent to 3.85 percent. The increase in pension expense in 2011 was primarily due to a decline in the discount rate from 5.31 percent to 4.64 percent and lower returns on pension plan assets than expected.

Depreciation and Amortization Expense

Depreciation and amortization expense primarily includes the depreciation of our plant assets and the amortization of our intangible assets.

The following table reflects the primary drivers of year-over-year changes in depreciation and amortization expense:

(Millions)	Twelve Months Ended December 31, 2012		Twelve Months Ended December 31, 2011	
	Increase (Decrease)	%	Increase (Decrease)	%
Due to depreciation of acquired businesses fixed assets	\$ 184.4		\$ 58.5	
Due to amortization of intangible assets acquired in the purchase of acquired companies	149.7		87.6	
Due to increases in depreciation expense (a)	144.4		28.6	
Due to decreases in amortization expense (b)	(28.4	)	(20.9)
Total changes in depreciation and amortization expense	\$450.1	53 %	\$ 153.8	22 %

Increases in depreciation expense were primarily due to additions in property, plant and equipment in 2012.

Additionally, we implemented new depreciation rates beginning in 2012 for certain subsidiaries, which resulted in (a) a net increase to depreciation expense of \$59.1 million for the year ended December 31, 2012. See Note 2 to the consolidated financial statements. Increases in depreciation expense in 2011 were primarily due to additions in property, plant and equipment.

Decreases in amortization expense were due to the use of accelerated amortization methods primarily due to the (b) use of sum of the years digits method used for customer lists, which result in declines in expense each year as intangible assets amortize.

Merger, Integration and Restructuring Costs

We incur a significant amount of costs to complete a merger or acquisition and integrate its operations into our business, which are presented as merger and integration expense in our results of operations. These costs include transaction costs, such as accounting, legal and broker fees; severance and related costs; IT and network conversion; rebranding; and consulting fees. Our recent acquisitions of PAETEC, NuVox, Iowa Telecom, Q-Comm, and Hosted Solutions described in the section "Strategic Transactions" drive merger and integration costs for the years presented.

Restructuring charges are sometimes incurred as a result of evaluations of our operating structure. Among other things, these evaluations explore opportunities for task automation, network efficiency and the balancing of our workforce based on the current needs of our customers. Severance, lease exit costs and other related charges are included in restructuring charges.

On May 31, 2012, we announced the review of our management structure to increase the efficiency of decision-making, to ensure our management structure is as simple and as responsive to customers as possible and

position ourselves for continued success. We eliminated approximately 350 management positions as part of the restructuring, which was completed in the third quarter of 2012 and resulted in severance related costs of \$22.4 million. The changes will result in annualized savings of approximately \$40.0 million. Merger, integration and restructuring costs are unpredictable by nature but should not necessarily be viewed as non-recurring.

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Set forth below is a summary of restructuring and merger and integration costs for the years ended December 31:

(Millions)	2012	2011	2010
Merger and integration costs			
Transaction costs associated with acquisitions (a)	\$7.1	\$40.7	\$41.2
Employee related transition costs (b)	20.3	22.3	26.7
Information technology conversion costs	6.1	5.7	4.2
Rebranding, consulting and other costs (c)	31.9	1.1	5.2
Total merger and integration costs	65.4	69.8	77.3
Restructuring charges	27.4	1.3	7.7
Total merger, integration and restructuring charges	\$92.8	\$71.1	\$85.0

Transaction costs in 2012, 2011 and 2010 primarily relate to accounting, legal and broker fees and other (a) miscellaneous costs associated with the acquisitions of the Acquired Companies, respectively. These costs are considered indirect or general and are expensed when incurred.

(b) Employee related transition costs primarily consists of severance related to the integration of the Acquired Companies.

(c) Increases are primarily due to the nationwide rebranding of the PAETEC markets and consulting fees related to integration activities.

Summary of Liability Activity Related to Both Merger and Integration Costs and Restructuring Charges

The following table is a summary of liability activity related to both merger and integration costs and restructuring charges as of December 31:

(Millions)	2012	2011
Balance, beginning of period	\$12.9	\$10.5
Merger, integration and restructuring charges	92.8	71.1
Cash outlays during the period	(85.4	) (68.7
Balance, end of period	\$20.3	\$12.9

As of December 31, 2012, we had unpaid merger, integration and restructuring liabilities totaling \$20.3 million, which consisted of \$3.7 million of accrued severance costs primarily associated with the integration of the Acquired Companies, \$5.8 million primarily associated with the restructuring announcement made on May 31, 2012, and \$10.8 million related to other integration activities. Severance and related employee costs are included in other current liabilities in the accompanying consolidated balance sheet and will be paid as positions are eliminated, excluding salary continuation payments. Each of these payments will be funded through operating cash flows (see Note 10).

Merger, integration and restructuring costs decreased net income \$58.2 million, \$44.1 million and \$59.1 million for the years ended December 31, 2012, 2011 and 2010, respectively, giving consideration to tax benefits on deductible items. See Note 10 for additional information regarding these charges.

Operating Income

Operating income decreased \$76 million, or 7.9 percent and \$70.0 million, or 6.8 percent, in 2012 and 2011, respectively. The decrease in 2012 was primarily due to an increase in depreciation and amortization expense in our heritage properties, which exclude properties acquired from PAETEC, partially offset by a decrease in pension expense, both discussed previously. The decrease in 2011 was primarily due to the unfavorable impacts of a \$113.2 million increase in pension expense due to a decline in the discount rate and lower returns on plan assets also

contributed to the increase. These increases in expense were partially offset by operating income generated from acquired businesses of \$54.3 million and by the favorable impact of a decrease of \$7.5 million in merger and integration as well as expense management initiatives. In addition, operating income during both years was unfavorably impacted by the revenue impact associated with continued voice line losses.

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Operating Income before Depreciation and Amortization ("OIBDA")

OIBDA increased \$374.1 million, or 20.7 percent, during the year ended December 31, 2012, as compared to the same period in 2011 (see "Reconciliation of non-GAAP Financial Measures"). This increase was primarily due to OIBDA from Acquired Companies of \$337.5 million and a decrease in pension expense partially offset by restructuring charges. OIBDA increased \$83.8 million, or 4.9 percent, in 2011. This increase was primarily attributable to OIBDA from Acquired Companies of \$200.3 million and a decrease in merger and integration expense, partially offset by an increase in pension expense, discussed above.

Other Income (Expense), Net

Set forth below is a summary of other income (expense), net for the years ended December 31:

(Millions)	2012	2011	2010
Interest income	\$1.0	\$1.5	\$1.2
Gain on sale of investments (a)	6.9	1.1	0.5
Mark-to-market of interest rate swap agreements	—	—	(0.3)
Ineffectiveness of interest rate swaps (b)	(7.5)	(5.2)	—
Interest expense on de-designated swap (c)	—	—	(4.5)
Other income (expense), net	4.2	2.5	(0.4)
Other income (expense), net	\$4.6	\$(0.1)	\$(3.5)

(a) The increase for 2012 was primarily due to the sale of wireless assets associated with Iowa Telecom and D&E Communications, Inc ("D&E"). See Note 2 to the consolidated financial statements.

(b) This increase in expense was due to a charge to earnings related to ineffectiveness of our cash flow hedges during 2012 and 2011, primarily due to declines in the LIBOR rate.

(c) The decline in 2010 was primarily due to changes in the non-cash, mark-to-market adjustment of the de-designated portion of the interest rate swaps incurred prior to the "blend and extend" swap transaction entered into on December 10, 2010. See Financial Condition, Liquidity and Capital Resources for further discussion of the "blend and extend" swap transaction.

Gain (Loss) on Extinguishment of Debt

During the first quarter of 2012, we retired all \$300.0 million of the outstanding 9.500 percent notes due July 15, 2015 ("PAETEC 2015 Notes"). The PAETEC 2015 Notes were purchased using borrowings on our revolving line of credit. The retirements were accounted for under the extinguishment method, and as a result we recognized a gain on extinguishment of debt of \$1.9 million during 2012.

During 2011, we repurchased all \$1,746.0 million of our 2016 8.625 percent Senior Notes ("2016 Notes") and all of our \$400.0 million 7.750 percent Valor Notes ("Valor Notes"). We financed these transactions with proceeds from various debt offerings and borrowings from our revolving line of credit. See Note 5 for detailed information regarding our debt activity in 2011. These transactions allowed us to extend our existing debt maturities and lower our interest rates. The retirements were accounted for under the extinguishment method, and as a result we recognized a loss on extinguishment of debt of \$136.1 million during 2011.

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The gain (loss) on extinguishment of debt is shown as follows for the twelve months ended December 31, 2012:

(Millions)	2012	2011
2015 PAETEC Notes:		
Premium on early redemption	\$(14.3)	\$—
Unamortized premium on original issuance	16.2	—
Gain on early extinguishment for PAETEC 2015 Notes	1.9	—
2016 Notes:		
Premium on early redemption	—	(101.2)
Unamortized discount on original issuance	—	(26.6)
Third-party fees for early redemption	—	(3.0)
Unamortized debt issuance costs on original issuance	—	(1.1)
Loss on early extinguishment for 2016 Notes	—	(131.9)
Valor Notes:		
Premium on early redemption	—	(10.3)
Third-party fees for early redemption	—	(0.4)
Unamortized premium on original issuance	—	6.5
Loss on early extinguishment for Valor Notes	—	(4.2)
Total gain (loss) on early extinguishment of debt	\$1.9	\$(136.1)

Interest Expense

Set forth below is a summary of interest expense for the years ended December 31:

(Millions)	2012	2011	2010
Senior secured credit facility, Tranche A	\$13.9	\$6.1	\$6.9
Senior secured credit facility, Tranche B	51.8	40.2	40.9
Senior secured credit facility, revolving line of credit	18.1	19.8	6.6
Senior unsecured notes	400.8	413.0	371.3
Notes issued by subsidiaries	91.8	20.9	38.6
Credit facility extension fees	—	—	1.8
Impacts of interest rate swaps	56.4	64.8	57.2
Other interest expense	3.2	0.3	0.5
Less capitalized interest expense	(10.9)	(6.8)	(2.1)
Total interest expense	\$625.1	\$558.3	\$521.7

Interest expense increased \$66.8 million, or 12.0 percent and \$36.6 million, or 7.0 percent, for the years ended December 31, 2012 and 2011, respectively. The increase in 2012 was primarily due to interest incurred on notes issued by subsidiaries, specifically PAETEC. The increase in 2011 was primarily due to interest incurred on additional debt issued during 2011.

We enter into interest rate swap agreements to mitigate the interest rate risk inherent in our variable rate senior secured credit facilities. Our swaps are off-market swaps; therefore, they contain an embedded financing element. Our swap counterparties recover this financing through an incremental charge in our fixed rate over what we would be charged for an on-market swap. As such, a portion of our swaps' cash payment is representing the rate we would pay on a hypothetical on-market interest rate swap and is recognized in interest expense. See Note 2 for additional details.

Income Taxes

Income tax expense increased \$0.8 million, or 0.8 percent in 2012, and decreased \$96.2 million, or 49.2 percent in 2011. The increase in income tax expense in 2012 was primarily due to an increase in income before taxes. The

decrease in income tax expense in 2011 was primarily due to a decrease in income before taxes. Our effective tax rate in 2012 was 37.3 percent, compared to 37.0 percent in 2011 and 38.5 percent in 2010.

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For 2013, our annualized effective income tax rate is expected to range between 37.0 percent and 38.0 percent, excluding one-time discrete items. Changes in the relative profitability of our business, as well as recent and proposed changes to federal and state tax laws may cause the rate to change from historical rates. See Note 12, "Income Taxes", to the accompanying consolidated financial statements for further discussion of income tax expense and deferred taxes.

Discontinued Operations, net of tax

The operating results of the energy business acquired as part of PAETEC, which sells electricity to business and residential customers, primarily in certain geographic regions in New York state, as a competitive electricity supplier, have been separately presented as discontinued operations in the accompanying consolidated statements of income. On June 15, 2012, we completed the sale of the energy business. See Note 16 for additional information.

Regulatory Matters

We are subject to regulatory oversight by the Federal Communications Commission ("FCC") for particular interstate matters and state public utility commissions ("PUCs") for certain intrastate matters. We are also subject to various federal and state statutes that direct such regulations. We actively monitor and participate in proceedings at the FCC and PUCs and engage federal and state legislatures on matters of importance to us.

Communications services providers are regulated differently depending primarily upon the network technology used to deliver the service. We believe this regulatory approach impedes market-based competition in areas where service providers using different technologies exchange telecommunications traffic and compete for customers.

From time to time federal and state legislation is introduced dealing with various matters that could affect our business. Most proposed legislation of this type never becomes law. It is difficult to predict what kind of legislation, if any, may be introduced and ultimately become law. We strongly support the modernization of the nation's telecommunications laws.

Federal Regulation and Legislation

Intercarrier Compensation and USF Reform

On November 18, 2011, the FCC released an order ("the Order") that established a framework for reform of the intercarrier compensation system and the federal USF. The Order included two primary provisions:

- the elimination of terminating switched access rates and other per-minute terminating charges between service providers by 2018 through annual reductions in the rates, mitigated in some cases by two recovery mechanisms; and
- the provision of USF support for voice and broadband services.

In reforming the USF, the Order established the Connect America Fund, which included a short term ("CAF Phase 1") and a longer term ("CAF Phase 2") framework. CAF Phase 1 provides for continued legacy USF funding frozen at 2011 levels as well as the opportunity for incremental broadband funding to a number of unserved locations, limited to \$775 per unserved location. As a result of our aggressive broadband deployment to date, we had very few unserved locations remaining in our service areas for which \$775 in incremental support would make broadband deployment economical. On July 24, 2012, we elected to accept approximately \$0.7 million of the \$60.4 million in incremental support allocated to us for 2012. In addition, we filed a waiver request seeking to modify certain CAF Phase 1 requirements, which would enable us to accept the remaining \$59.7 million to expand our broadband footprint. The waiver request is still pending. The FCC is currently considering potential modifications to the rules governing CAF

Phase 1 incremental support for 2013 that may enable us to accept more of the funding allocated to us, which may include funding carried over from 2012. The FCC is also weighing a separate proposal to forego an additional round of CAF Phase 1 incremental support in 2013 and add all remaining funds from CAF Phase 1 to the budget for CAF Phase 2.

The FCC is working to establish rules for CAF Phase 2 funding based on a forward-looking cost model to further extend broadband to high-cost areas. The development of this model was not completed by the end of 2012 as originally scheduled by the FCC. Until the implementation of CAF Phase 2 is complete, our annual USF funding will continue to be frozen at 2011 levels, but we will be required to use one-third of frozen legacy support to operate and build broadband networks beginning in 2013. Based on current expenditures, we expect to comply with these additional funding conditions in 2013. In 2014, this condition will apply to two-thirds of frozen legacy support and in 2015, it will increase to 100 percent.

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As part of the Order's reform of intercarrier compensation, the FCC established two recovery mechanisms that mitigate the revenue reductions resulting from the reduction and ultimate elimination of terminating access rates. The mechanisms are the ARC and the ARM, which are previously defined.

On April 25, 2012, the FCC decided that originating access rates for intrastate long distance traffic exchanged between an Internet-protocol network and the traditional telecommunications network should be subject to default rates equal to interstate originating access rates beginning on July 1, 2014. The FCC refused at that time to adopt a mechanism that would allow companies to recover the loss of originating access revenues resulting from the change. On July 27, 2012, we filed a petition for review with the U.S. Court of Appeals of the District of Columbia seeking relief from the April 2012 ruling on the grounds that it is arbitrary, capricious, in excess of the FCC's statutory authority and otherwise not in accordance with law. That petition for review was transferred to the U.S. Court of Appeals for the 10th Circuit on August 28, 2012, and on October 1, 2012, our appeal was consolidated with 30 appeals on the Order. Our initial brief was filed on December 10, 2012, and briefing is expected to be completed in the second quarter of 2013. We continue to assess the impacts of the FCC's intercarrier compensation reform on our wholesale business activities.

Additional implications of the Order will likely result in future additional rulemaking and require significant interpretation, management judgment and collaboration with other telecommunications carriers. As a result of these factors, we expect numerous disputes with other carriers with respect to the proper amount of intercarrier compensation that is payable between such parties, and these disputes can sometimes become significant. Our policy is to establish reserves on wholesale revenues and accounts receivable balances when collectability is not reasonably assured. We do not believe that ultimate resolution of uncertainties, including asserted and unasserted disputes and claims from other telecommunications carriers, relate to wholesale services provided to date will have a material impact on the future consolidated results of operations, cash flows or our financial condition.

Given our ongoing transformation towards business and enterprise, coupled with the positive impact of the ARC and the additional universal service support available from the ARM, we do not believe the Order's reform of intercarrier compensation will have a material impact on our results of operation, cash flows, or our financial condition.

Set forth below is a summary of intercarrier compensation revenue, reciprocal compensation expense and federal universal service support, included in wholesale revenues on the consolidated statements of income, for the years ended December 31:

(Millions)	2012	2011
Inter-carrier compensation revenue	\$337.3	\$302.9
Inter-carrier and reciprocal compensation expense	\$170.5	\$81.6
Federal universal service support	\$123.1	\$100.6

Broadband Stimulus

As part of the American Recovery and Reinvestment Act of 2009 ("ARRA") approximately \$7.2 billion was allocated for the purpose of expanding broadband services to unserved and underserved areas. The Rural Utilities Service, part of the United States Department of Agriculture, approved eighteen of our applications for these funds for projects totaling \$241.7 million. The RUS will fund 75 percent of these approved grants, or \$181.3 million, and we will fund the remainder of at least \$60.4 million.

Selected information related to the broadband stimulus expenditures and receipts for the years ended December 31 is as follows:

(Millions)	2012	2011	Inception to Date
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Stimulus capital expenditures funded by RUS	\$ 105.4	\$ 21.7	\$ 128.1
Stimulus capital expenditures funded by Windstream (a)	44.0	7.2	52.0
Total stimulus capital expenditures	\$ 149.4	\$ 28.9	\$ 180.1
Funds received from RUS	\$ 45.7	\$ 4.0	\$ 49.7

Stimulus capital expenditures funded by Windstream are included in our capital expenditure totals for each period (a) presented in the statements of cash flows. This figure includes certain non-reimbursable charges for which we are responsible for the full amount of the cost.

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By accepting the grant funds, we agreed to certain long-term conditions. The RUS will have a retained security interest in the assets over their economic life, which varies by grant but is up to 23 years. In the event of default of terms of the agreement, the government could exercise the rights under its retained security interest to gain control and ownership of these assets. In addition, in the event of a proposed change in control of Windstream, the acquiring party would need to receive approval from the RUS prior to effectuating the proposed transaction, for which pre-approval will not be reasonably withheld.

Internet Network Regulation

On December 21, 2010, the FCC adopted new regulations covering the provision of broadband Internet access service, defined as a retail service offered to consumer, small business and other end user customers. Broadband Internet service provides the capability to transmit and receive data from all or substantially all Internet endpoints, but excludes dial-up Internet access service. The new regulations, among other things:

- require all providers of broadband Internet access service to disclose network management practices, performance characteristics, and commercial terms of service; and

- prohibit fixed broadband Internet service providers ("ISPs"), which include our subsidiaries providing broadband services, from blocking lawful content, applications, services, or attachment of non-harmful devices, and/or engaging in unreasonable discrimination.

The requirements will be enforced through a combination of mechanisms, including informal and formal complaint processes. In 2011, multiple suits were filed in federal court challenging the FCC's authority to implement these rules, and no court decision has yet been issued. The new regulations have not caused a change in our existing procedures or operations. As such, we cannot predict at this time the impact these new regulations may have on our revenues or expenses, or whether such impact would be material, although it appears that our existing procedures are compliant with the regulations.

State Regulation and Legislation

Local and Intrastate Rate Regulation

Most states in which our incumbent subsidiaries operate provide alternatives to traditional rate-of-return regulation for local and intrastate services. We have elected alternative regulation for these subsidiaries in all states except New York. We continue to evaluate alternative regulation options in New York.

State Universal Service

We recognize revenue from the receipt of state universal service funding in a limited number of states in which we operate. In 2012, we recognized \$125.8 million in state USF revenue, which included approximately \$88.3 million from the Texas USF. These payments are intended to provide additional support, beyond the federal USF receipts, for the high cost of operating in certain rural markets.

There are two high-cost programs of the Texas USF, one for large companies and another for small companies. In 2012, we received \$77.7 million from the large company program and \$10.6 million from the small company program. The purpose of the Texas USF is to assist telecommunications carriers with providing basic local telecommunications services at reasonable rates to customers in high cost rural areas and to qualifying low-income and disabled customers. By order of the Texas PUC, the Texas USF distributes support to eligible carriers serving areas identified as high cost, on a per-line basis. Texas USF support payments are based on the number of actual lines

in service and therefore are subject to reductions when customers discontinue service or migrate to a competitive carrier. All service providers of telecommunications services in Texas contribute to the Texas USF through the payment of a monthly surcharge collected from their customers.

Several states are currently conducting reviews of their universal service funds. In particular, the Texas PUC recently adopted an order that we expect to reduce our Texas USF support by approximately \$4.3 million each year over the next four years. The Texas PUC is also considering further needs-based and rate rebalancing reforms that could adversely impact our support in 2014 and later years. We continue to work with the Texas PUC and industry members to obtain a reasonable and more favorable outcome. We are not yet able to determine the financial impact of any additional Texas USF reform.

New Mexico, Oklahoma, and Pennsylvania are also considering reforms to their state universal service funds. We receive \$8.4 million annually from the New Mexico fund, \$3.4 million annually from the Oklahoma fund and \$13.3 million annually from the Pennsylvania fund. Reviews may address various aspects of the funds, including how they pertain to the basic retail rates of

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eligible USF recipient companies and demonstration of the continuing need for support in high-cost areas. We cannot estimate at this time the financial impact that would result from changes, if any, to these other state funds.

Intercarrier Compensation

There is an ongoing intercarrier compensation reform proceeding in New York. In that proceeding, it is alleged that our intrastate switched access rates are excessive and should be reduced. We do not believe proposed reforms to intercarrier compensation in New York would have a material impact on our operations if adopted.

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FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Resources

We rely largely on operating cash flows and long-term debt to meet our liquidity requirements. We expect cash flows from operations will be sufficient to fund ongoing working capital requirements, planned capital expenditures, scheduled debt principle, interest payments and dividend payments. We also have access to capital markets and available borrowing capacity under our revolving credit agreements.

Our cash and cash equivalents, including restricted cash, was \$158.5 million at December 31, 2012, compared to \$248.7 million at December 31, 2011, a decline of \$90.2 million. Cash outflows were primarily driven by repayments of debt and payment of interest, capital expenditures and dividends. These outflows were partially offset by cash inflows from operations of \$1,777.6 million.

During 2012, we entered into several transactions to improve our debt maturity profile and lower interest costs, including:

- the redemption of the \$300.0 million of PAETEC 2015 Notes using borrowings on our revolving line of credit;

- the amendment and restatement of our credit facilities in February 2012, which moved \$150.4 million from Tranche A2 to Tranche A3, extending its maturity to December 2016;

- new borrowings of \$280.0 million under Tranche A3 of our credit facilities, also due December 2016; and

- new borrowings of \$600.0 million in Tranche B3 and \$300.0 million in Tranche A4 of our senior secured facilities, with maturity dates of August 2017 and August 2019, respectively, which were used to pay off the revolving line of credit to create sufficient liquidity for our 2013 debt maturities.

Further in January 2013, we obtained \$1,345.0 million of additional term loans, due in 2020, under our existing senior secured credit facilities. The proceeds, together with cash on hand, were used to repay \$300.4 million in term loans due in July 2013 and another \$1,042.9 million of term loans due in 2015. Additionally, we have \$800.0 million in notes maturing in August 2013 which we expect to refinance, in which case, our next significant debt maturity would not be until late 2017. We have access to capital markets and sufficient capacity under our revolving line of credit, as noted above, available to repay these notes.

The 2013 expected employer contribution for pension benefits consists of approximately \$20.0 million in contributions to avoid certain benefit restrictions, which we intend to make in Windstream stock, and \$0.7 million necessary to fund the expected benefit payments related to the unfunded supplemental executive retirement pension plans. The amount and timing of future contributions to the pension plan are dependent upon a myriad of factors including future investment performance, changes in future discount rates and changes in the demographics of the population participating in our qualified pension plan.

Additionally, the actual amount and timing of our future capital requirements may differ materially from our estimates depending on the demand for our services and new market developments and opportunities, and on other factors, including those described in Part I, "Item 1A. Risk Factors" in this report. If our plans or assumptions change or prove to be inaccurate, the foregoing sources of funds may prove to be insufficient. In addition, if we seek to acquire other businesses or to accelerate the expansion of our business, we may be required to seek material amounts of additional capital. Additional sources may include equity and debt financing. Further, if we believe we can obtain additional debt financing on advantageous terms, we may seek such financing at any time, to the extent that market conditions and

other factors permit us to do so. The debt financing we may seek could be in the form of additional term loans under our senior secured credit facilities or additional debt securities having substantially the same terms as, or different terms from, our outstanding senior notes.

Historical Cash Flows

(Millions)	2012	2011	2010
Cash flows provided from (used in):			
Operating activities	\$1,777.6	\$1,228.8	\$1,091.3
Investing activities	(1,101.7	) (652.2	) (1,454.3
Financing activities	(770.9) (391.9) (657.6
Increase (decrease) in cash and cash equivalents	\$(95.0) \$184.7	\$(1,020.6

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Cash Flows – Operating Activities

Cash provided from operations is our primary source of funds. Cash flows from operating activities increased by \$548.8 million in 2012 as compared to 2011, and increased \$137.5 million in 2011 as compared to 2010. The increase during 2012 is primarily attributable to the \$89.6 million increase in net income taxes refunded and cash flows generated from PAETEC. These increases were partially offset by an increase of \$69.6 million in cash interest paid.

Cash flows from operating activities were favorably impacted in 2012 due to bonus depreciation provisions in the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act ("Tax Relief Act"). Bonus depreciation allows for the acceleration of depreciation on qualified investments, which accelerates the related tax benefit. The Tax Relief Act allowed for 50 percent bonus depreciation for qualified investments made from December 31, 2011 through December 31, 2012. The American Taxpayer Relief Act extended 50 percent bonus depreciation through 2013.

The increase in 2011 is primarily attributable to the \$131.7 million decrease in net income taxes paid, the decrease in merger, integration and restructuring costs incurred and cash flows generated from acquired companies in 2011 as compared to the same period in 2010. These increases were partially offset by an increase of \$108.6 million in cash interest paid.

Cash Flows – Investing Activities

Cash used in investing activities primarily includes investments in our network to upgrade and expand our service offerings, as well as spending on strategic initiatives such as the acquisition of complementary businesses. Cash used in investing activities increased by \$449.5 million in 2012 as compared to 2011, primarily driven by increased capital expenditures, as discussed below. This increase was partially offset by approximately \$57.0 million in proceeds from the disposition of wireless assets.

Cash used in investing activities decreased by \$802.1 million in 2011 as compared to 2010, primarily due to cash used to purchase the companies acquired in 2010, partially offset by increased capital expenditures, as discussed below. Cash paid, net of cash acquired for the acquisitions of NuVox, Iowa Telecom, Hosted and Q-Comm was \$198.4 million, \$253.6 million, \$312.8 million and \$279.1 million, respectively.

Capital expenditures were \$1,101.2 million, \$702.0 million and \$412.0 million for 2012, 2011 and 2010, respectively. Capital expenditures increased \$399.2 million in 2012, driven by success-based fiber-to-the-tower initiatives, our portion of broadband stimulus spend, expansion of our data center presence and enhancements to our network and the acquisition of PAETEC. Given the growing bandwidth needs fueled by wireless data growth, wireless carriers have aggressively accelerated their fiber deployment plans and increased the number of towers targeted for fiber. We expect increases in wireless data usage and expansion of wireless 4G networks through the end of 2013, which will provide more opportunities for our wireless backhaul services. We are currently executing on fiber to the tower projects we have won. These capital investments offer attractive long-term returns and position our business to continue improving our financial performance going forward. While our capital spend is elevated this year, beginning in 2013 we expect capital expenditures to decline as the fiber to the tower and stimulus projects wind down.

Capital expenditures by category for the last two years are as follows:

(Millions)	2012	2011
Recurring capital expenditures	\$735.2	\$555.3
Fiber to the tower and broadband stimulus	314.6	146.7
Integration capital expenditures	\$51.4	\$—
Total capital expenditures	\$1,101.2	\$702.0

The primary uses of cash for future capital expenditures are for property, plant and equipment necessary to support our network operations, including spend on success-based fiber initiatives such as fiber-to-the-tower and data center expansions. Capital expenditures are expected to be between \$800.0 million and \$850.0 million for 2013.

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Cash Flows – Financing Activities

Cash used in financing activities increased by \$379.0 million for the twelve months ended December 31, 2012, as compared to the same period in 2011. This increase was due to repayments of debt, primarily offset by debt proceeds, discussed below.

Our board of directors maintains a dividend practice for the payment of quarterly cash dividends at a rate of \$0.25 per share of our common stock. This practice can be changed at any time at the discretion of the board of directors, and is subject to our restricted payment capacity under our debt covenants as further discussed below. Dividends paid to shareholders were \$1.00 per share during 2012, totaling \$588.0 million, which was an increase of \$78.4 million due to additional shares issued and outstanding resulting from the acquisition of PAETEC. We also paid \$147.0 million to shareholders in January 2013 pursuant to a \$0.25 quarterly dividend declared during the fourth quarter of 2012.

We retired \$300.0 million in outstanding indebtedness related to the PAETEC 2015 Notes in 2012. Additionally, we borrowed \$730.0 million under the revolving line of credit in our senior secured credit facility and later repaid \$1,650.0 million during 2012. During the third quarter of 2012, we incurred new borrowings of \$300.0 million of Tranche A4 senior secured credit facilities due August 8, 2017, and \$600.0 million of Tranche B3 senior secured credit facilities due August 8, 2019. During the first quarter of 2012, we amended and restated \$150.4 million of the Tranche A2 senior secured credit facilities outstanding ("Tranche A2") to Tranche A3 senior secured credit facilities ("Tranche A3") and incurred new borrowings of \$280.0 million of Tranche A3 facilities, which will also be due December 30, 2016.

Cash used in financing activities decreased by \$265.7 million for the twelve months ended December 31, 2011, as compared to the same period in 2010. This decrease was due to debt proceeds, partially offset by repayments of debt, discussed below.

During 2011, we issued \$1,750.0 million in additional notes and extended the maximum line of credit under our revolving credit agreement from \$750.0 million to \$1,250.0 million. The proceeds from the additional notes, along with borrowings from the revolving line of credit, were used to retire \$2,146.0 million in outstanding indebtedness during the year ended December 31, 2011. This included \$1,746.0 million of our 2016 Notes and all \$400.0 million of our Valor Notes. These transactions allowed us to extend our existing debt maturities and lower our future interest costs. We borrowed \$3,170.0 million under the revolving line of credit in our senior secured credit facility and later repaid \$2,400.0 million during 2011.

During 2010, we issued \$900.0 million in additional notes. Proceeds from these issuances were used to repay \$281.0 million, \$628.9 million and \$266.2 million in debt and related swap agreements assumed from NuVox, Iowa Telecom and Q-Comm, respectively. Additionally, we made regularly scheduled payments of \$23.9 million, borrowed \$665.0 million under the revolving line of credit in our senior secured credit facility and later repaid \$515.0 million of those revolver borrowings during 2010. Dividends paid to shareholders totaled \$464.6 million in 2010.

Pension Contribution

We did not make a pension contribution during 2012. The 2013 expected employer contribution for pension benefits consists of \$0.7 million necessary to fund the expected benefit payments related to the unfunded supplemental executive retirement pension plans and approximately \$20.0 million in contributions to avoid certain benefit restrictions, which we intend to make in Windstream stock. The amount and timing of future contributions to the pension plan are dependent upon a myriad of factors including future investment performance, changes in future discount rates and changes in the demographics of the population participating in our qualified pension plan.

During 2011, we contributed 10.8 million shares of our common stock to our qualified pension plan to meet our remaining 2011 and expected 2012 obligation, which allowed us to preserve cash and manage overall net debt leverage. At the time of the contribution, these shares had an appraised value, as determined by an unaffiliated third party valuation firm, of approximately \$135.8 million. The pension trust subsequently sold all 10.8 million shares for approximately \$133.5 million.

Debt and Dividend Capacity

As of December 31, 2012, we had \$8,903.7 million in long-term debt outstanding, including current maturities and excluding the premium and capital lease obligations (see Note 5). As of December 31, 2012, the amount available for borrowing under the revolving line of credit was \$1,234.3 million and will expire December 17, 2015.

As of December 31, 2012, we had approximately \$1,108.6 million of restricted payment capacity as governed by our credit facility, which limits the amount of dividends we may distribute. We build additional capacity through cash generated from

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operations while dividend payments, share repurchases and other certain restricted investments reduce the available restricted payments capacity.

Debt Covenants and Amendments

The terms of the credit facility and indentures, issued by Windstream, include customary covenants that, among other things, require us to maintain certain financial ratios and restrict our ability to incur additional indebtedness. These financial ratios include a maximum leverage ratio of 4.5 to 1.0 and a minimum interest coverage ratio of 2.75 to 1.0. The terms of the indentures assumed in connection with the acquisition of PAETEC, include restrictions on the ability of the subsidiary to incur additional indebtedness, including a maximum leverage ratio with the most restrictive being 4.75 to 1.0.

Effective January 23, 2013, we amended and restated our senior secured credit facilities pursuant to the refinancing amendment provisions thereunder to incur \$1,345.0 million of Tranche B4 term loans due January 23, 2020, the proceeds of which were used to refinance in full the outstanding Tranche A2, Tranche B1 and Tranche B2 term loans. The additional term loans under the credit facility consist of \$408.8 million Tranche A3 term loan due December 30, 2016, \$292.5 million Tranche A4 term loan due August 8, 2017 and \$597.0 million Tranche B3 term loan due August 8, 2019.

Effective August 8, 2012, we amended and restated our existing senior secured credit facilities to provide for the incurrence of up to \$900.0 million of additional term loans. We used the proceeds to repay the full outstanding balance of the credit facility revolver, without any reduction in commitments, and for general corporate purposes.

Effective February 23, 2012, we amended and restated \$150.4 million of the Tranche A2 senior secured credit facilities outstanding to Tranche A3 and extended the maturity to December 30, 2016. In addition, we incurred new borrowings of \$280.0 million of Tranche A3 senior secured credit facilities, which will also be due December 30, 2016. The proceeds from these borrowings were used to partially repay the credit facility revolver, without any reduction in commitments. Additionally, the restatement extended the maturity of certain existing term loans and provided for the ability to refinance and extend the maturity of any term loan or revolving loan with the consent of the affected lenders, modify certain other definitions and provisions and increase secured debt capacity to 2.25 times adjusted OIBDA, as defined per the credit facility. The restatement also provided for unlimited additional tranches of secured incremental facilities, subject to no default, pro forma compliance with the an interest coverage ratio test of 2.75 to 1.00 and a leverage ratio test of 4.00 to 1.00 and pro forma compliance with a secured leverage ratio test of 2.25 to 1.00.

On August 11, 2011, in connection with our acquisition of PAETEC, we amended our senior secured credit agreement to, among other things, (i) permit the issuance of bridge loans, (ii) permit the issuance and repayment of escrow notes, (iii) waive guaranty and security requirements with regard to PAETEC and its subsidiaries, (iv) delete the capital expenditures covenant and (v) waive any breach due to the change of control provisions under PAETEC's outstanding notes. In addition, we amended the security agreement to, among other things, waive the obligation to grant security on accounts relating to escrow notes and the proceeds of notes held in such accounts.

On September 17, 2010, we amended our credit facility to permit the signing of rural broadband stimulus grant agreements with the Rural Utilities Service. On March 18, 2011, we increased the capacity under our senior secured revolving credit facility from \$750.0 million to \$1,250.0 million. We had approximately \$1,234.3 million of availability under our senior secured revolving credit facility.

Scheduled principal payments for debt outstanding as of December 31, 2012 for each of the twelve month periods ended December 31, 2013, 2014, 2015, 2016 and 2017 were \$866.1 million, \$85.1 million, \$92.6 million, \$350.8

million and \$1,964.6 million, respectively. Scheduled principal payments remaining after 2017 are \$5,544.5 million.

Certain of our debt agreements contain various covenants and restrictions specific to the subsidiary that is the legal counterparty to the agreement. Under our long-term debt agreements, acceleration of principal payments would occur upon payment default, violation of debt covenants not cured within 30 days, a change in control including a person or group obtaining 50 percent or more of our outstanding voting stock, or breach of certain other conditions set forth in the borrowing agreements. At December 31, 2012, we were in compliance with all such covenants and restrictions.

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Our senior secured credit facility and Windstream indentures include maintenance covenants derived from certain financial measures that are not calculated in accordance with accounting principles generally accepted in the United States ("non-GAAP financial measures"). These non-GAAP financial measures are presented below for the sole purpose of demonstrating our compliance with our debt covenants and were calculated as follows:

(Millions, except ratios)	December 31, 2012
Gross leverage ratio:	
Total debt	\$8,996.5
Operating income, last twelve months	\$887.5
Depreciation and amortization, last twelve months	1,297.6
Other non-cash and non-recurring expense adjustments required by the credit facilities and indentures	214.7
(a)	
Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA")	\$2,399.8
Leverage ratio (b)	3.75
Maximum gross leverage ratio allowed	4.50
Interest coverage ratio:	
Adjusted EBITDA	\$2,399.8
Interest expense, last twelve months	\$625.1
Adjustments required by the credit facilities and indentures (c)	24.2
Adjusted interest expense	\$649.3
Interest coverage ratio (d)	3.70
Minimum interest coverage ratio allowed	2.75

(a) Adjustments required by the credit facility and indentures primarily consist of the inclusion of pension and share-based compensation expense, non-recurring merger, integration and restructuring charges.

(b) The gross leverage ratio is computed by dividing total debt by adjusted EBITDA.

(c) Adjustments required by the credit facility and indentures primarily consist of the inclusion of capitalized interest and amortization of the discount on long-term debt, net of premiums.

(d) The interest coverage ratio is computed by dividing adjusted EBITDA by adjusted interest expense.

Credit Ratings

As of February 11, 2013, Moody's Investors Service, Standard & Poor's Corporation ("S&P") and Fitch Ratings had granted us the following senior secured, senior unsecured and corporate credit ratings:

Description	Moody's	S&P	Fitch
Senior secured credit rating	Baa3	BB+	BBB-
Senior unsecured credit rating	Ba3	B	BB+
Corporate credit rating	Ba2	BB-	BB+
Outlook	Negative	Stable	Stable

Factors that could affect our short and long-term credit ratings would include, but are not limited to, a material decline in our operating results, increased debt levels relative to operating cash flows resulting from future acquisitions, increased capital expenditure requirements, or changes to our dividend policy. If our credit ratings were to be downgraded, we might incur higher interest costs on future borrowings, and our access to the public capital markets could be adversely affected. Our exposure to interest risk is further discussed in the Market Risk section below. A downgrade in our current short or long-term credit ratings would not accelerate scheduled principal payments of our

existing long-term debt, as discussed further in Note 5. Our next significant scheduled debt maturity is in 2017.

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Off-Balance Sheet Arrangements

We do not use securitization of trade receivables, affiliation with special purpose entities, variable interest entities or synthetic leases to finance our operations. Additionally, we have not entered into any arrangement requiring us to guarantee payment of third party debt or to fund losses of an unconsolidated special purpose entity.

Contractual Obligations and Commitments

Set forth below is a summary of our material contractual obligations and commitments as of December 31, 2012:

(Millions)	Obligations by Period				Total
	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 years	
Long-term debt, including current maturities (a)	\$866.1	\$177.7	\$2,315.4	\$5,544.5	\$8,903.7
Interest payments on long-term debt obligations (b)	590.9	1,038.5	992.9	1,044.2	3,666.5
Capital leases (c)	15.2	10.9	2.1	2.5	30.7
Operating leases (d)	249.5	324.8	178.3	174.6	927.2
Purchase obligations (e)	163.7	71.7	—	—	235.4
Other long-term liabilities and commitments (f) (g) (h)	117.5	324.2	372.7	1,811.1	2,625.5
Total contractual obligations and commitments	\$2,002.9	\$1,947.8	\$3,861.4	\$8,576.9	\$16,389.0

(a) Excludes \$62.1 million and \$30.7 million of unamortized premiums (net of discounts) and capital lease obligations, respectively included in long-term debt at December 31, 2012.

(b) Variable rates on the senior secured credit facility are calculated in relation to one-month and three-month LIBOR rates, which were 0.21 percent and 0.34 percent, respectively, at December 31, 2012.

(c) Capital leases include non-cancellable leases, consisting principally of leases for facilities and equipment.

(d) Operating leases consist of non-cancellable operating leases, consisting principally of leases for network facilities, real estate, office space and office equipment.

(e) Purchase obligations include open purchase orders not yet receipted and amounts payable under non-cancellable contracts. The portion attributable to non-cancellable contracts primarily represents agreements for network capacity and software licensing.

(f) Other long-term liabilities and commitments primarily consist of deferred tax liabilities, pension and other postretirement benefit obligations, interest rate swaps, asset retirement obligations and long-term deferred revenue.

(g) Excludes \$21.2 million of reserves for uncertain tax positions, including interest and penalties, that were included in other liabilities at December 31, 2012 for which we are unable to make a reasonably reliable estimate as to when cash settlements with taxing authorities will occur.

(h) Includes \$29.0 million and \$23.8 million in current portion of interest rate swaps and pension and postretirement benefit obligations, respectively that were included in current portion of interest rate swaps and other current liabilities at December 31, 2012. The current portion of pension and postretirement benefit obligations includes

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\$20.0 million for expected pension contributions in 2013. Although no additional pension contributions may be required in 2013, due to uncertainties inherent in the pension funding calculation, the amount and timing of any remaining contributions are unknown and therefore have been reflected as due in more than 5 years.

See "Debt Covenants and Amendments" for information regarding our debt covenants. See Notes 2, 5, 6, 8, 12, 13 and 15 for additional information regarding certain of the obligations and commitments listed above.

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MARKET RISK

Market risk is comprised of three elements: foreign currency risk, interest rate risk and equity risk. As further discussed below, we are exposed to market risk from changes in interest rates. We do not directly own significant marketable equity securities other than highly liquid cash equivalents, nor do we operate in foreign countries. However, our pension plan invests in marketable equity securities, including marketable debt and equity securities denominated in foreign currencies.

Interest Rate Risk

We are exposed to market risk through changes in interest rates, primarily as it relates to the variable interest rates we are charged under our senior secured credit facility. Under our current policy, we enter into interest rate swap agreements to obtain a targeted mixture of variable and fixed interest rate debt such that the portion of debt subject to variable rates does not exceed 25 percent of our total debt outstanding. For a detailed discussion of our interest rate swap agreements, see "Financial Condition, Liquidity and Capital Resources".

We have established policies and procedures for risk assessment and the approval, reporting and monitoring of interest rate swap activity. We do not enter into interest rate swap agreements, or other derivative financial instruments, for trading or speculative purposes. Management periodically reviews our exposure to interest rate fluctuations and implements strategies to manage the exposure.

As of December 31, 2012, the unhedged portion of our variable rate senior secured credit facility was \$1,697.9 million, or approximately 20.9 percent of our total outstanding long-term debt and capital lease obligations. We have estimated our interest rate risk using a sensitivity analysis. For variable rate debt instruments, market risk is defined as the potential change in earnings resulting from a hypothetical adverse change in interest rates. A hypothetical increase of 100.0 basis points in variable interest rates would reduce annual pre-tax earnings by approximately \$17.0 million. Actual results may differ from this estimate.

Equity Risk

In general, we hold available cash in FDIC-insured demand depository accounts. However, occasionally we will utilize money market funds available in the investment portals of various financial institutions to invest our cash on hand in short-term securities. These financial institutions are generally a party to our existing credit facility. These monies have been invested in both taxable funds as well as tax-exempt municipal funds, and investments will often be moved between these two types of securities depending on their respective yields. These monies are all invested in AAA rated funds with same day access, and thus are highly liquid. The money market funds are primarily comprised of fixed income investments and have minimal equity risk.

In addition, we have exposure to market risk through our pension plan investments. During 2012, the fair market value of these investments increased from \$948.9 million to \$999.0 million due to return on assets held of \$130.0 million, or 13.5%. These increases were partially offset by routine benefit payments of \$60.1 million and lump sum payments and administrative expenses of \$19.8 million. Returns generated on plan assets have historically funded a large portion of the benefits paid under our pension plan. See "Critical Accounting Policies - Pension Benefits" for a discussion of the sensitivity of our pension expense.

Foreign Currency Risk

Although we do not operate in foreign countries, our pension plan invests in international securities. As of December 31, 2012 approximately \$94.7 million or 9.5 percent of total pension assets are invested in debt or equity

securities denominated in foreign currencies. The investments are diversified in terms of country, industry and company risk, limiting the overall foreign currency exposure. Based on a 10 percent hypothetical change in the U.S. dollar to various foreign exchange markets, we estimate that our pension fair value would change by \$9.5 million, which would be offset by a corresponding change in the U.S. dollar value of our net pension investments.

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Reconciliation of non-GAAP financial measures

From time to time, we will reference certain non-GAAP measures in our filings. Management's purpose for including these measures is to provide investors with measures of performance that management uses in evaluating the performance of the business. These non-GAAP measures should not be considered in isolation or as a substitute for measures of financial performance reported under GAAP. Following is a reconciliation of non-GAAP financial measures to the most closely related financial measure reported under GAAP referenced in this filing.

Operating income before depreciation and amortization to GAAP operating income:				
(Millions)	2012	2011	%	
Operating income	\$887.5	\$963.5		
Depreciation and amortization	1,297.6	847.5		
OIBDA (a)	\$2,185.1	\$1,811.0	21	%

OIBDA is defined as operating income plus depreciation and amortization expense. Management believes this (a) measure provides investors with insight into the core earnings capacity of providing telecommunications services to its customers.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States. Our significant accounting policies are discussed in detail in Note 2. Certain of these accounting policies, as discussed below, require management to make estimates and assumptions about future events that could materially affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. We believe that the estimates, judgments and assumptions made when accounting for the items described below are reasonable, based on information available at the time they are made. However, there can be no assurance that actual results will not differ from those estimates.

Revenue Recognition

We recognize revenues and sales as services are rendered or as products are sold in accordance with authoritative guidance on revenue recognition. Service revenues are recognized over the period that the corresponding services are rendered to customers. Revenues derived from other telecommunications services, including interconnection, long distance and enhanced service revenues are recognized monthly as services are provided. Revenue from sales of indefeasible rights to use fiber optic network facilities ("IRUs") and the related telecommunications network maintenance arrangements is generally recognized over the term of the related lease or contract. Sales of communications products including customer premise equipment and modems are recognized when products are delivered to and accepted by customers. Fees assessed to communications customers for service activation are deferred upon service activation and recognized as service revenue on a straight-line basis over the expected life of the customer relationship in accordance with authoritative guidance on multiple element arrangements. Certain costs associated with activating such services are deferred and recognized as an operating expense over the same period.

We recognize certain revenues pursuant to various cost recovery programs from state and federal USF. Revenues are calculated based on our investment in our network and other network operations and support costs. We have historically collected the revenues recognized through this program; however, adjustments to estimated revenues in future periods are possible. These adjustments could be necessitated by adverse regulatory developments with respect to these subsidies and revenue sharing arrangements, the determination of recoverable costs, or decreases in the availability of funds in the programs due to increased participation by other carriers.

Allowance for Doubtful Accounts

In evaluating the collectability of our trade receivables, we assess a number of factors, including a specific customer's ability to meet its financial obligations to us, as well as general factors, such as the length of time the receivables are past due and historical collection experience. Based on these assumptions, we record an allowance for doubtful accounts to reduce the related receivables to the amount that we ultimately expect to collect from customers. If circumstances related to specific customers change or economic conditions worsen such that our past collection experience is no longer relevant, our estimate of the recoverability of our trade receivables could be further reduced from the levels provided for in the consolidated financial statements.

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Pension Benefits

The annual costs of providing pension benefits are based on certain key actuarial assumptions, including the expected return on plan assets, discount rate and healthcare cost trend rate. Our projected net pension income for 2013, which is estimated to be approximately \$5.5 million, was calculated based upon a number of actuarial assumptions, including an expected long-term rate of return on qualified pension plan assets of 7.0 percent and a discount rate of 3.85 percent. If returns vary from the expected rate of return or there is a change in the discount rate, the estimated net pension income could vary. In developing the expected long-term rate of return assumption, we considered the plan's historical rate of return, as well as input from our investment advisors. Historical returns of the plan were 9.79 percent since 1975, including periods in which it was sponsored by Alltel. Projected returns on qualified pension plan assets were based on broad equity and bond indices and include a targeted asset allocation of 25.0 percent to equities, 57.0 percent to fixed income assets and 18.0 percent to alternative investments, with an aggregate expected long-term rate of return of approximately 7.0 percent. Lowering the expected long-term rate of return on the qualified pension plan assets by 50 basis points (from 7.0 percent to 6.5 percent) would result in a decrease in our projected pension income of approximately \$4.9 million in 2013.

The discount rate selected is based on a hypothetical yield curve and associated spot rate curve adjusted to reflect the expected cash outflows for pension benefit payments. The yield curve incorporates actual high-quality corporate bonds across the full maturity spectrum and is developed from yields on Aa-graded, non-callable/puttable bonds. The discount rate determined on this basis was 3.85 percent at December 31, 2012. Lowering the discount rate by 25 basis points (from 3.85 percent to 3.60 percent) would result in an increase in our projected pension expense of approximately \$43.0 million in 2013. We recognize changes in the fair value of plan assets and actuarial gains and losses due to actual experience differing from the various actuarial assumptions, including changes in our pension obligation, as pension expense or income in the fourth quarter each year.

The Pension Protection Act of 2006 ("PPA") was signed into law on August 17, 2006. In general, PPA changed the rules governing the minimum contribution requirements for funding a qualified pension plan on an annual basis without paying excise tax penalties. Among other requirements, PPA changed the assumptions used to calculate the minimum lump-sum benefit payments, and applied benefit restrictions to plans below certain funding levels. PPA made permanent certain provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA") that were scheduled to expire in 2010. EGTRRA increased the maximum amount of benefits that a qualified defined benefit pension plan could pay and increased the maximum compensation amount allowed for determining benefits for qualified pension plans. We are complying with PPA provisions. As a result of the \$135.8 million contribution in 2011, the qualified pension was at least 80.0 percent funded for the 2012 plan year, resulting in no benefit restrictions. The assumptions selected as of December 31, 2012, for financial reporting purposes, for the qualified pension plan reflected the PPA impact. Future contributions to the plan are dependent on various factors, including future investment performance, changes in future discount rates and changes in the demographics of the population participating in the qualified pension plan.

See Notes 2 and 8 for additional information on our pension plans.

Useful Lives of Assets

The calculation of depreciation and amortization expense is based on the estimated economic useful lives of the underlying property, plant and equipment and finite-lived intangible assets. Our regulated operations use a group composite depreciation method. Under this method, when plant is retired, the original cost, net of salvage value, is charged against accumulated depreciation and no immediate gain or loss is recognized on the disposition of the plant. With the assistance of outside expertise, we completed analyses of the depreciable lives of assets held for certain subsidiaries during the year 2012. Based on those results, we implemented new depreciation rates resulting in a net

increase to depreciation of \$59.1 million and a net decrease in net income of \$36.5 million or \$0.06 per share for the year ended December 31, 2012.

Goodwill

We test our goodwill for impairment at least annually, or whenever indicators of impairment arise. This guidance requires write-downs of goodwill only in periods in which the recorded amount of goodwill exceeds the fair value. We assess the impairment of our goodwill by evaluating the carrying value of our shareholders' equity against the current fair market value of our outstanding equity, where the fair market value of our equity is equal to our current market capitalization plus a control premium estimated to be 20.0 percent through the review of recent market observable transactions involving wireline telecommunication companies. If the fair value is less than its carrying value, a second calculation is required in which the implied fair value of goodwill is compared to its carrying value. If the implied fair value of goodwill is less than its carrying value, goodwill must be written down to its implied fair value.

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We perform our impairment analysis on January 1st of each year. During 2012, 2011 and 2010, no write-down in the carrying value was required. Effective January 1, 2012, we determined that we had one reporting unit to test for impairment. Reducing our January 1, 2012 market capitalization by 82.0 percent would not have resulted in an impairment of the carrying value of goodwill. Changes in the key assumptions used in the impairment analysis due to changes in market conditions could adversely affect the calculated fair value of goodwill, materially affecting the carrying value and our future consolidated operating results.

See Notes 2 and 4 for additional information on goodwill.

Derivative Instruments

We enter into interest rate swap agreements to mitigate the interest rate risk inherent in our variable rate senior secured credit facilities. We account for our derivative instruments using authoritative guidance for recognition, measurement and disclosures about derivative instruments and hedging activities, including when a derivative or other financial instrument can be designated as a hedge. This guidance requires recognition of all derivative instruments at fair value, and accounting for the changes in fair value depends on whether the derivative has been designated as, qualifies as and is effective as a hedge. We record changes in fair value of the effective portions of cash flow hedges as a component of other comprehensive income (loss) in the current period. Any ineffective portion of our hedges is recognized in earnings in the current period.

In 2006, we entered into four pay fixed, receive variable interest rate swap agreements to serve as cash flow hedges of the interest rate risk inherent in our senior secured credit facilities. We renegotiated the four interest rate swap agreements on December 3, 2010, and again on August 21, 2012, each time lowering the fixed interest rate paid and extending the maturity.

The current swaps are designated as cash flow hedges of the interest rate risk created by the variable rate cash flows paid on our senior secured credit facilities, which have varying maturity dates from July 17, 2013 to August 8, 2019. We are hedging probable variable cash flows which extend up to four years beyond the maturity of certain components of our variable rate debt. Consistent with past practice, we expect to extend or otherwise replace these components of our debt with variable rate debt.

We recognize all derivative instruments at fair value in the accompanying consolidated balance sheets as either assets or liabilities, depending on the rights or obligations under the related contracts. Changes in value of the effective portion are charged to accumulated other comprehensive income (loss) and reclassified into earnings as the hedged transaction affects earnings. Changes in value of the ineffective portion are charged to other income (expense), net. See note 2 for additional information.

See Note 2 for additional information on derivative instruments.

Income Taxes

Our estimates of income taxes and the significant items resulting in the recognition of deferred tax assets and liabilities are disclosed in Note 12 and reflect our assessment of future tax consequences of transactions that have been reflected in our financial statements or tax returns for each taxing jurisdiction in which we operate. Actual income taxes to be paid could vary from these estimates due to future changes in income tax law or the outcome of audits completed by federal and state taxing authorities. Included in the calculation of our annual income tax expense are the effects of changes, if any, to our income tax reserves for uncertain tax positions. We maintain income tax reserves for potential assessments from the IRS or other taxing authorities. The reserves are determined in accordance with authoritative guidance and are adjusted, from time to time, based upon changing facts and circumstances. Changes to

the income tax reserves could materially affect our future consolidated operating results in the period of change. In addition, a valuation allowance is recorded to reduce the carrying amount of deferred tax assets unless it is more likely than not that such assets will be realized.

Recently Issued Authoritative Guidance

The following authoritative guidance will be adopted by us in the reporting period indicated. This authoritative guidance, together with our evaluation of the related impact to the consolidated financial statements, is more fully described in Note 2.

• Balance Sheet Offsetting (first quarter of 2013)

• Comprehensive Income (first quarter of 2013)

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Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes, and future filings on Form 10-K, Form 10-Q and Form 8-K and future oral and written statements by us and our management may include, certain forward-looking statements. We claim the protection of the safe-harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for this Annual Report on Form 10-K. Forward looking statements are subject to uncertainties that could cause actual future events and results to differ materially from those expressed in the forward-looking statements. Forward looking statements include, but are not limited to, statements about our expectation to return a significant portion of our cash flow to shareholders through our dividend, our expectation to maintain our current dividend practice at the current rate of dividend, expected levels of support from universal service funds or other government programs, expected rates of loss of voice lines or inter-carrier compensation, expected increases in high-speed Internet and business data connections, our expected ability to fund operations, expected required contributions to our pension plan, capital expenditures and certain debt maturities from cash flows from operations, expected synergies and other benefits from completed acquisitions, expected effective federal income tax rates, expected annualized savings from the management restructuring, the amounts expected to be received from the Rural Utilities Service to fund a portion of our broadband stimulus projects and the expected benefits of those projects and forecasted capital expenditure amounts. These and other forward-looking statements are based on estimates, projections, beliefs, and assumptions that we believe are reasonable but are not guarantees of future events and results. Actual future events and our results may differ materially from those expressed in these forward-looking statements as a result of a number of important factors.

Factors that could cause actual results to differ materially from those contemplated in our forward looking statements include, among others:

• further adverse changes in economic conditions in the markets served by us;

• the extent, timing and overall effects of competition in the communications business;

• the impact of new, emerging or competing technologies;

• for certain operations where we lease facilities from other carriers, adverse effects on the availability, quality of service, price of facilities and services provided by other carriers on which our services depend;

• the uncertainty regarding the implementation of the Federal Communications Commission's ("FCC") rules on intercarrier compensation adopted in 2011, and the potential for the adoption of further rules by the FCC or Congress on intercarrier compensation and/or universal service reform proposals that result in a significant loss of revenue to us;

• unfavorable rulings by state public service commissions in proceedings regarding universal service funds, inter-carrier compensation or other matters that could reduce revenues or increase expenses;

• material changes in the communications industry that could adversely affect vendor relationships with equipment and network suppliers and customer relationships with wholesale customers;

• earnings on pension plan investments significantly below our expected long term rate of return for plan assets or a significant change in the discount rate;

• the availability and cost of financing in the corporate debt markets;

- the potential for adverse changes in the ratings given to our debt securities by nationally accredited ratings organizations;

- the risks associated with non-compliance by us with regulations or statutes applicable to government programs under which we receive material amounts of end user revenue and government subsidies, or non-compliance by us, our partners, or our subcontractors with any terms of our government contracts;

- the risks associated with the integration of acquired businesses or the ability to realize anticipated synergies, cost savings and growth opportunities;

- unfavorable results of litigation or intellectual property infringement claims asserted against us;

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the effects of federal and state legislation, and rules and regulations governing the communications industry;

continued loss of consumer voice lines;

the impact of equipment failure, natural disasters or terrorist acts;

the effects of work stoppages by our employees or employees of other communications companies on whom we rely for service; and

those additional factors under the caption "Risk Factors" in Item 1A of this annual report and in subsequent filings with the Securities and Exchange Commission at www.sec.gov.

In addition to these factors, actual future performance, outcomes and results may differ materially because of more general factors including, among others, general industry and market conditions and growth rates, economic conditions, and governmental and public policy changes.

We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors that could cause our actual results to differ materially from those contemplated in the forward-looking statements should be considered in connection with information regarding risks and uncertainties that may affect our future results included in this Management's Discussion and Analysis of Financial Condition and Results of Operations and in our other filings with the Securities and Exchange Commission at www.sec.gov.

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SELECTED FINANCIAL DATA

(Millions, except per share amounts in thousands)	2012	2011	2010	2009	2008
Revenues and sales	\$6,156.3	\$4,281.2	\$3,710.7	\$2,996.3	\$3,170.2
Operating income	887.5	963.5	1,033.5	1,060.6	741.6
Other income (expense), net	4.6	(0.1)	(3.5)	(1.1)	2.1
Gain (loss) on extinguishment of debt	1.9	(136.1)	—	—	—
Interest expense	(625.1)	(558.3)	(521.7)	(410.2)	(416.4)
Income from continuing operations before income taxes	268.9	269.0	508.3	649.3	327.3
Income tax expense	100.2	99.4	195.6	250.8	133.5
Income from continuing operations	168.7	169.6	312.7	398.5	193.8
Discontinued operations, including tax expense (benefit) of \$0, \$0, and (\$10.6), for 2012, 2011 and 2008, respectively	(0.7)	(0.1)	—	—	(22.2)
Net income	\$168.0	\$169.5	\$312.7	\$398.5	\$171.6
Basic and diluted earnings per share:					
From continuing operations	\$.28	\$.32	\$.66	\$.91	\$.43
From discontinued operations	—	—	—	—	(.05)
Net income	\$.28	\$.32	\$.66	\$.91	\$.38
Dividends declared per common share	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Balance sheet data					
Total assets	\$13,982.0	\$14,392.1	\$11,303.9	\$9,113.7	\$7,988.4
Total long-term debt and capital leases (excluding premium and discount)	\$8,934.4	\$9,053.2	\$7,365.5	\$6,295.2	\$5,382.5
Total equity	\$1,104.8	\$1,495.3	\$831.0	\$225.9	\$254.6

Notes to Selected Financial Information:

Explanations for significant events affecting our historical operating trends during the periods 2010 through 2012 are provided in Management's Discussion and Analysis of Results of Operations and Financial Condition.

In connection with the preparation of our consolidated financial statements for the year ended December 31, 2012, we became aware of and corrected an error in the accounting for certain promotional credits for new consumer customers. These errors are non-cash and did not affect our total operating cash flow for any period. See Note 2 for further information.

Effective during the fourth quarter of 2011, we changed our method of recognizing actuarial gains and losses for pension benefits to recognize actuarial gains and losses in our operating results in the year in which the gains and losses occur. The effect of this change in methodology can create volatility in actuarial gains and losses recognized based on market fluctuations which impacts pension expense (benefit) for the year. Pension expense amounted to \$67.4, \$166.8, \$54.1, (\$23.8), and \$388.7 for the years ended December 31, 2012, 2011, 2010, 2009 and 2008.

Acquisitions were also considered significant events affecting our historical operating trends during the periods 2009 through 2011. On November 30, 2011, we acquired PAETEC. During 2010, Q-Comm, Hosted Solutions, Iowa Telecom and Nuvox were acquired on December 2, 2010, December 1, 2010, June 1, 2010 and February 8, 2010, respectively. During 2009, Lexcom and D&E were acquired on December 1, 2009 and November 10, 2009, respectively.

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Our management is responsible for the integrity and objectivity of all financial information included in this Financial Supplement. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The financial statements include amounts that are based on the best estimates and judgments of management. All financial information in this Financial Supplement is consistent with that in the consolidated financial statements.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited these consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and have expressed herein their unqualified opinion on those financial statements.

The Audit Committee of the Board of Directors, which oversees our financial reporting process on behalf of the Board of Directors, is composed entirely of independent directors (as defined by the NASDAQ Global Select Market). The Audit Committee meets periodically with management, the independent registered public accounting firm and the internal auditors to review matters relating to our financial statements and financial reporting process, annual financial statement audit, engagement of independent registered public accounting firm, internal audit function, system of internal controls, and legal compliance and ethics programs as established by our management and the Board of Directors. The internal auditors and the independent registered public accounting firm periodically meet alone with the Audit Committee and have access to the Audit Committee at any time.

Dated February 19, 2013

Jeffery R. Gardner
President and
Chief Executive Officer

Anthony W. Thomas
Chief Financial Officer
and Treasurer

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2012. Internal control over financial reporting is the process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our system of internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Management performed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2012 based upon criteria in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment, management determined that our internal control over financial reporting was effective as of December 31, 2012.

The effectiveness of our internal control over financial reporting as of December 31, 2012, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Dated February 19, 2013

Jeffery R. Gardner
President and
Chief Executive Officer

Anthony W. Thomas
Chief Financial Officer
and Treasurer

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Windstream Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows present fairly, in all material respects, the financial position of Windstream Corporation and its subsidiaries ("the Company") at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/PricewaterhouseCoopers LLP

Little Rock, Arkansas
February 19, 2013

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CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31,

(Millions, except per share amounts)	2012	2011	2010
Revenues and sales:			
Service revenues:			
Business	\$3,611.4	\$2,098.0	\$1,577.5
Consumer	1,339.5	1,378.3	1,372.8
Wholesale	708.0	547.3	555.9
Other	266.2	131.0	115.2
Total service revenues	5,925.1	4,154.6	3,621.4
Product sales	231.2	126.6	89.3
Total revenues and sales	6,156.3	4,281.2	3,710.7
Costs and expenses:			
Cost of services (exclusive of depreciation and amortization included below)	2,692.4	1,691.1	1,331.9
Cost of products sold	210.0	105.3	74.9
Selling, general, and administrative	976.0	602.7	491.7
Depreciation and amortization	1,297.6	847.5	693.7
Merger and integration costs	65.4	69.8	77.3
Restructuring charges	27.4	1.3	7.7
Total costs and expenses	5,268.8	3,317.7	2,677.2
Operating income	887.5	963.5	1,033.5
Other income (expense), net	4.6	(0.1)	(3.5)
Gain (loss) on early extinguishment of debt	1.9	(136.1)	—
Interest expense	(625.1)	(558.3)	(521.7)
Income from continuing operations before income taxes	268.9	269.0	508.3
Income taxes	100.2	99.4	195.6
Income from continuing operations	168.7	169.6	312.7
Discontinued operations	(0.7)	(0.1)	—
Net income	\$168.0	\$169.5	\$312.7
Basic and diluted earnings per share:			
From continuing operations	\$.28	\$.32	\$.66
From discontinued operations	—	—	—
Net income	\$.28	\$.32	\$.66

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31,

(Millions)	2012	2011	2010	
Net income	\$168.0	\$169.5	\$312.7	
Other comprehensive income (loss):				
Interest rate swaps:				
Changes in designated interest rate swaps	(20.5	) (32.5	) 3.1
Amortization of unrealized losses on de-designated interest rate swaps	45.4	49.0	4.9	
Income tax expense	(9.5) (6.3) (3.1)
Unrealized holding gains on interest rate swaps	15.4	10.2	4.9	
Postretirement and pension plans:				
Prior service credit arising during the period	1.4	37.6	1.5	
Change in net actuarial gain (loss) for employee benefit plans	0.1	(2.1) (13.0)
Plan curtailment	(9.6) —	—	
Amounts included in net periodic benefit cost:				
Amortization of net actuarial loss	2.3	1.0	0.6	
Amortization of prior service credits	(11.9) (10.8) (8.4)
Income tax benefit (expense)	6.8	(9.9	) 8.9
Change in postretirement and pension plans	(10.9) 15.8	(10.4)
Other comprehensive income (loss)	\$4.5	\$26.0	\$(5.5)
Comprehensive income	\$172.5	\$195.5	\$307.2	

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED BALANCE SHEETS

December 31,

(Millions, except par value)

Assets	2012	2011
Current Assets:		
Cash and cash equivalents	\$132.0	\$227.0
Restricted cash	26.5	21.7
Accounts receivable (less allowance for doubtful accounts of \$42.6 and \$29.9, respectively)	614.1	657.4
Income tax receivable	0.8	124.1
Inventories	75.0	76.5
Deferred income taxes	249.5	232.1
Prepaid income taxes	22.5	15.3
Prepaid expenses and other	179.7	102.9
Assets held for sale	—	61.4
Total current assets	1,300.1	1,518.4
Goodwill	4,340.9	4,301.7
Other intangibles, net	2,311.3	2,685.3
Net property, plant and equipment	5,862.7	5,709.2
Other assets	167.0	177.5
Total Assets	\$13,982.0	\$14,392.1
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current maturities of long-term debt and capital lease obligations	\$881.6	\$213.7
Current portion of interest rate swaps	29.0	30.5
Accounts payable	363.7	296.0
Advance payments and customer deposits	223.3	243.9
Accrued dividends	148.9	148.0
Accrued taxes	104.3	117.9
Accrued interest	113.6	161.8
Other current liabilities	304.0	251.2
Total current liabilities	2,168.4	1,463.0
Long-term debt and capital lease obligations	8,114.9	8,936.7
Deferred income taxes	1,896.3	1,849.8
Other liabilities	697.6	647.3
Total liabilities	12,877.2	12,896.8
Commitments and Contingencies (See Note 13)		
Shareholders' Equity:		
Common stock, \$0.0001 par value, 1,000.0 shares authorized, 588.2 and 586.3 shares issued and outstanding, respectively	0.1	0.1
Additional paid-in capital	1,098.3	1,493.3
Accumulated other comprehensive income	6.4	1.9
Retained earnings	—	—
Total shareholders' equity	1,104.8	1,495.3
Total Liabilities and Shareholders' Equity	\$13,982.0	\$14,392.1

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,

(Millions)	2012	2011	2010
Cash Provided from Operations:			
Net income	\$ 168.0	\$ 169.5	\$ 312.7
Adjustments to reconcile net income to net cash provided from operations:			
Depreciation and amortization	1,297.6	847.5	693.7
Provision for doubtful accounts	59.4	48.5	48.9
Share-based compensation expense	43.2	24.1	17.0
Pension expense	67.4	166.8	54.1
Deferred income taxes	79.6	173.8	125.1
Unamortized net (premium) discount on retired debt	(16.2)	) 21.2	—
Amortization of unrealized losses on de-designated interest rate swaps	45.4	49.0	0.6
Plan curtailment	(9.6)	) (14.7)) —
Other, net	(16.7)	) 11.6	14.8
Pension contribution	—	—	(41.7)
Changes in operating assets and liabilities, net			
Accounts receivable	(75.8)	) (64.3)	) (42.8)
Income tax receivable	123.3	(124.1)) —
Prepaid income taxes	(7.1)	) 57.1	(46.6)
Prepaid expenses and other	(22.2)	) (5.6)	) 4.7
Accounts payable	63.6	23.5	(18.1)
Accrued interest	(40.8)	) (99.1)	) 26.6
Accrued taxes	(10.9)	) 0.7	(10.1)
Other current liabilities	36.5	(30.3)	) (1.1)
Other liabilities	(5.8)	) (3.5)	) (30.3)
Other, net	(1.3)	) (22.9)	) (16.2)
Net cash provided from operations	1,777.6	1,228.8	1,091.3
Cash Flows from Investing Activities:			
Additions to property, plant and equipment	(1,101.2)	) (702.0)	) (412.0)
Broadband network expansion funded by stimulus grants	(105.4)	) (21.7)) —
Acquisition of NuVox, net of cash acquired	—	—	(198.4)
Acquisition of Iowa Telecom, net of cash acquired	—	—	(253.6)
Acquisition of Hosted Solutions, net of cash acquired	—	—	(312.8)
Acquisition of Q-Comm, net of cash acquired	—	—	(279.1)
Cash acquired from PAETEC	—	71.4	—
Changes in restricted cash	(4.8)	) (11.9)) —
Grant funds received for broadband stimulus projects	45.7	4.0	—
Disposition of wireless assets	57.0	—	—
Disposition of energy business	6.1	—	—
Other, net	0.9	8.0	1.6
Net cash used in investing activities	(1,101.7)	) (652.2)	) (1,454.3)
Cash Flows from Financing Activities:			
Dividends paid on common shares	(588.0)	) (509.6)	) (464.6)
Repayment of debt and swaps	(2,054.5)	) (4,780.3)	) (1,715.0)
Proceeds of debt issuance	1,910.0	4,922.0	1,562.0
Debt issuance costs	(19.1)) (30.6)) (21.8)
Payment under capital lease obligations	(20.0)) (0.8)) (1.0)

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Other, net	0.7	7.4	(17.2)
Net cash used in financing activities	(770.9) (391.9) (657.6)
(Decrease) increase in cash and cash equivalents	(95.0) 184.7	(1,020.6)
Cash and Cash Equivalents:				
Beginning of period	227.0	42.3	1,062.9	
End of period	\$132.0	\$227.0	\$42.3	
Supplemental Cash Flow Disclosures:				
Interest paid	\$671.5	\$601.9	\$493.3	
Income taxes (refunded) paid, net	\$(100.7	) \$(11.1	) \$120.6	

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Millions, except per share amounts)	Common Stock and Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at December 31, 2009	\$106.2	\$(18.6)	\$168.3	\$255.9
Net income	—	—	312.7	312.7
Other comprehensive (loss) income, net of tax:				
Change in postretirement and pension plans	—	(10.4)	—	(10.4)
Amortization of unrealized losses on de-designated interest rate swaps	—	3.0	—	3.0
Changes in designated interest rate swaps	—	1.9	—	1.9
Comprehensive (loss) income	—	(5.5)	312.7	307.2
Share-based compensation expense	17.0	—	—	17.0
Stock issued to NuVox shareholders (See Note 3)	185.0	—	—	185.0
Stock issued to Iowa Telecom shareholders (See Note 3)	280.8	—	—	280.8
Stock issued to Q-Comm shareholders (See Note 3)	271.6	—	—	271.6
Taxes withheld on vested restricted stock and other	(4.5)	—	—	(4.5)
Dividends of \$1.00 per share declared to stockholders	(1.0)	—	(481.0)	(482.0)
Balance at December 31, 2010	\$855.1	\$(24.1)	\$—	\$831.0
Net income	—	—	169.5	169.5
Other comprehensive income, net of tax:				
Change in postretirement and pension plans	—	15.8	—	15.8
Amortization of unrealized losses on de-designated interest rate swaps	—	30.3	—	30.3
Changes in designated interest rate swaps	—	(20.1)	—	(20.1)
Comprehensive income	—	26.0	169.5	195.5
Share-based compensation expense	24.1	—	—	24.1
Stock options exercised	2.3	—	—	2.3
Stock issued to PAETEC shareholders (See Note 3)	842.0	—	—	842.0
Stock issued to pension plan (See Note 8)	135.8	—	—	135.8
Taxes withheld on vested restricted stock and other	(4.4)	—	—	(4.4)
Dividends of \$1.00 per share declared to stockholders	(361.5)	—	(169.5)	(531.0)
Balance at December 31, 2011	\$1,493.4	\$1.9	\$—	\$1,495.3
Net income	—	—	168.0	168.0
Other comprehensive income, net of tax:				
Change in postretirement and pension plans	—	(10.9)	—	(10.9)
Amortization of unrealized losses on de-designated interest rate swaps	—	28.0	—	28.0
Changes in designated interest rate swaps	—	(12.6)	—	(12.6)
Comprehensive income	—	4.5	168.0	172.5
Share-based compensation expense	25.4	—	—	25.4
Stock options exercised	6.0	—	—	6.0
Taxes withheld on vested restricted stock and other	(5.6)	—	—	(5.6)
Dividends of \$1.00 per share declared to stockholders	(420.8)	—	(168.0)	(588.8)
Balance at December 31, 2012	\$1,098.4	\$6.4	\$—	\$1,104.8

The accompanying notes are an integral part of these consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Background and Basis for Presentation:

Unless the context requires otherwise, the use of the terms "Windstream," "we," "us" and "our" in this Annual Report on Form 10-K refers to Windstream Corporation and its consolidated subsidiaries.

Description of the Business – We are a leading provider of advanced communications and technology solutions, including managed services and cloud computing, to businesses nationwide. In addition to business services, we offer broadband, voice and video services to consumers in primarily rural markets. We have operations in 48 states and the District of Columbia, a local and long-haul fiber network spanning approximately 115,000 miles, a robust business sales division and 23 data centers offering managed services and cloud computing.

Basis of Presentation – The preparation of financial statements, in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"), requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the consolidated financial statements. Actual results may differ from the estimates and assumptions used in preparing the accompanying consolidated financial statements, and such differences could be material.

Also, certain prior year amounts have been reclassified to conform to the current year financial statement presentation. These changes and reclassifications did not impact net or comprehensive income.

2. Summary of Significant Accounting Policies and Changes:

Significant Accounting Policies

Consolidation of Financial Statements – Our consolidated financial statements include the accounts of Windstream Corporation and the accounts of its subsidiaries. All affiliated transactions have been eliminated.

Cash and Cash Equivalents – Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less.

Restricted Cash – Restricted cash consists of cash restricted for uses other than current operations. We have placed cash into pledged deposit accounts for our share of committed spend on construction contracts currently under review by the Rural Utilities Service ("RUS"), part of the United States Department of Agriculture, for broadband stimulus grants. Changes in the restricted cash balances are reflected as cash inflows or outflows in the investing activities section of the statement of cash flows. Additionally, in connection with the acquisition of PAETEC Holding Corp. ("PAETEC"), we assumed responsibility for letter of credit agreements between PAETEC and their financial institution. These letter of credit agreements, which require cash collateral, relate to contracts entered into by PAETEC in the normal course of business. Approximately \$1.5 million and \$9.9 million was remaining in restricted cash associated with these letters of credit at December 31, 2012 and 2011, respectively.

Accounts Receivable – Accounts receivable consist principally of trade receivables from customers and are generally unsecured and due within 30 days. Expected credit losses related to trade accounts receivable are recorded as an allowance for doubtful accounts in the consolidated balance sheets. In establishing the allowance for doubtful accounts, we consider a number of factors, including historical collection experience, aging of the accounts receivable balances, current economic conditions and a specific customer's ability to meet its financial obligations. When internal collection efforts on accounts have been exhausted, the accounts are written off by reducing the allowance for

doubtful accounts. Concentration of credit risk with respect to accounts receivable is limited because a large number of geographically diverse customers make up our customer base. Due to varying customer billing cycle cut-off, we must estimate service revenues earned but not yet billed at the end of each reporting period. Included in accounts receivable are unbilled receivables related to communications services of \$49.2 million and \$48.7 million at December 31, 2012 and 2011, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies and Changes, Continued:

Inventories – Inventories consist primarily of finished goods and are stated at the lower of cost or market value. Cost is determined using either an average original cost or specific identification method of valuation.

Prepaid Expenses and Other Current Assets – Prepaid expenses and other current assets consist of prepaid services, rent, insurance, maintenance contracts and refundable deposits. Prepayments are expensed on a straight-line basis over the corresponding life of the underlying agreements.

Broadband Stimulus Spend – Capital expenditures related to the broadband stimulus grants are initially recorded to construction in progress. A receivable totaling 75 percent of the gross spend, representing the expected reimbursement from the RUS is recorded during the same period, offsetting the amounts recorded in construction in progress. The resulting balance sheet presentation reflects our 25 percent investment in these assets in property, plant and equipment. Once an asset is placed into service, depreciation is calculated and recorded based on our 25 percent investment in the equipment. Initial outflows to purchase stimulus-related assets are reflected in the investing activities section of the cash flows statement. Grant funds received from the RUS are shown as inflows in the investing activities section of the statement of cash flows.

Assets Held For Sale – On June 15, 2012, we completed the sale of the energy business acquired in conjunction with the acquisition of PAETEC. During 2011, \$10.7 million of assets and \$3.5 million of liabilities of the energy business were reclassified to assets held for sale and liabilities held for sale, respectively, and are presented in assets held for sale and other current liabilities, respectively, in the accompanying consolidated balance sheet. The results of our energy business are reported as discontinued operations for all periods presented. See Note 16 for further discussion.

On February 22, 2012 and March 30, 2012, we completed the sales of wireless assets acquired from D&E Communications, Inc. ("D&E") and Iowa Telecommunications Services, Inc. ("Iowa Telecom"), respectively. During 2010, \$16.6 million of wireless assets acquired from D&E Communications, Inc. and \$34.0 million of wireless licenses acquired from Iowa Telecommunications Services, Inc. were reclassified to assets held for sale. As a result of these transactions, we received gross proceeds of approximately \$57.0 million and recognized a gain of \$5.2 million, net of transaction fees.

Goodwill and Other Intangible Assets – Goodwill represents the excess of cost over the fair value of net identifiable tangible and intangible assets acquired through various business combinations. We have acquired identifiable intangible assets through our acquisitions. The cost of acquired entities at the date of the acquisition is allocated to identifiable assets, and the excess of the total purchase price over the amounts assigned to identifiable assets is recorded as goodwill. In accordance with authoritative guidance, goodwill is to be assigned to a company's reporting units and tested for impairment at least annually using a consistent measurement date, which for us is January 1st of each year. Goodwill is tested at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment, referred to as a component. A component of an operating segment is a reporting unit for which discrete financial information is available and our executive management team regularly reviews the operating results of that component. Additionally, components of an operating segment can be combined as a single reporting unit if the components have similar economic characteristics. Effective January 1, 2012, we have determined that we have one reporting unit to test for impairment that includes all Windstream operations. We assessed impairment of our goodwill by evaluating the carrying value of our shareholders' equity against the current fair market value of our outstanding equity, where the fair market value of our equity is equal to our current market capitalization plus a control premium estimated to be 20.0 percent. The fair market value of our equity, both including and excluding the control premium, exceed our goodwill carrying value as of January 1, 2012.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies and Changes, Continued:

Net Property, Plant and Equipment – Property, plant and equipment are stated at original cost, less accumulated depreciation. Property, plant and equipment consists of central office equipment, office and warehouse facilities, outside communications plant, customer premise equipment, furniture, fixtures, vehicles, machinery, other equipment and software to support the business units in the distribution of telecommunications products. The costs of additions, replacements, substantial improvements and extension of the network to the customer premise, including related labor costs, are capitalized, while the costs of maintenance and repairs are expensed as incurred. Depreciation expense amounted to \$955.6 million, \$626.9 million, and \$539.6 million in 2012, 2011 and 2010, respectively.

Net property, plant and equipment consisted of the following as of December 31:

(Millions)	Depreciable Lives	2012	2011
Land		\$46.3	\$45.5
Building and improvements	3-40 years	649.4	621.2
Central office equipment	3-40 years	5,276.0	4,945.5
Outside communications plant	7-47 years	6,256.2	5,822.5
Furniture, vehicles and other equipment	3-23 years	1,270.8	1,032.5
Construction in progress		329.2	297.4
		13,827.9	12,764.6
Less accumulated depreciation		(7,965.2)	(7,055.4)
Net property, plant and equipment		\$5,862.7	\$5,709.2

Our regulated operations use a group composite depreciation method. Under this method, when plant is retired, the original cost, net of salvage value, is charged against accumulated depreciation and no immediate gain or loss is recognized on the disposition of the plant. For our non-regulated operations, when depreciable plant is retired or otherwise disposed of, the related cost and accumulated depreciation are deducted from the plant accounts, with the corresponding gain or loss reflected in operating results.

The RUS will have a retained security interest in the assets funded by the broadband stimulus grants over their economic life, which varies by grant but is up to 23 years. In the event of default of terms of the agreement, the government could exercise the rights under its retained security interest to gain control and ownership of these assets. In addition, in the event of a proposed change in control of Windstream, the acquiring party would need to receive approval from the RUS prior to effectuating the proposed transaction, for which pre-approval will not be reasonably withheld.

We capitalize interest in connection with the acquisition or construction of plant assets. Capitalized interest is included in the cost of the asset with a corresponding reduction in interest expense. Capitalized interest amounted to \$10.9 million, \$6.8 million and \$2.1 million in 2012, 2011 and 2010.

Asset Retirement Obligations – We recognize asset retirement obligations in accordance with authoritative guidance on accounting for asset retirement obligations and on accounting for conditional asset retirement obligations, which requires recognition of a liability for the fair value of an asset retirement obligation if the amount can be reasonably estimated. Our asset retirement obligations include legal obligations to remediate the asbestos in certain buildings if we exit them and to properly dispose of our chemically-treated telephone poles at the time they are removed from service and to restore certain leased properties to their previous condition upon exit. These asset retirement obligations totaled \$51.4 million and \$50.2 million as of December 31, 2012 and 2011, respectively, and are included in other long term liabilities in the accompanying consolidated balance sheets.

Derivative Instruments – We enter into interest rate swap agreements to mitigate the interest rate risk inherent in our variable rate senior secured credit facilities. We account for our derivative instruments using authoritative guidance for recognition, measurement and disclosures about derivative instruments and hedging activities, including when a derivative or other financial instrument can be designated as a hedge. This guidance requires recognition of all derivative instruments at fair value, and accounting for the changes in fair value depends on whether the derivative has been designated as, qualifies as and is effective as a hedge. We record changes in fair value of the effective portions of cash flow hedges as a component of other comprehensive income (loss) in the current period. Any ineffective portion of our hedges is recognized in earnings in the current period.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies and Changes, Continued:

In 2006, we entered into four pay fixed, receive variable interest rate swap agreements to serve as cash flow hedges of the interest rate risk inherent in our senior secured credit facilities. We renegotiated the four interest rate swap agreements on December 3, 2010, and again on August 21, 2012, each time lowering the fixed interest rate paid and extending the maturity.

As a result of the August 21, 2012 transaction, we reduced our fixed rate paid from 4.553 percent to 3.391 percent effective October 17, 2012. The fixed rate paid includes a component which serves to settle the liability existing on our swaps at the time of the transaction. The variable rate received resets on the seventeenth day of each month to the one-month London Interbank Offered Rate ("LIBOR"). Our swaps had a notional value of \$943.8 million as of December 31, 2012, which will amortize to \$900.0 million on July 17, 2013, where they will remain until maturity.

The current swaps are designated as cash flow hedges of the benchmark LIBOR interest rate risk created by the variable rate cash flows paid on our senior secured credit facilities, which have varying maturity dates from July 17, 2013 to August 8, 2019. We are hedging probable variable cash flows which extend up to four years beyond the maturity of certain components of our variable rate debt. Consistent with past practice, we expect to extend or otherwise replace these components of our debt with variable rate debt.

We recognize all derivative instruments at fair value in the accompanying consolidated balance sheets as either assets or liabilities, depending on the rights or obligations under the related contracts.

Set forth below is information related to our interest rate swap agreements:

(Millions, except for percentages)	2012	2011	2010
Designated portion, measured at fair value			
Other current liabilities	\$29.0	\$30.5	\$35.4
Other non-current liabilities	\$91.2	\$88.7	\$75.9
Accumulated other comprehensive (loss) income	\$(14.7)	\$(26.9)	\$5.6
De-designated portion, unamortized value			
Accumulated other comprehensive loss	\$(45.9)	\$(58.6)	\$(107.6)
Weighted average fixed rate paid	4.26	% 4.60	% 5.60
Variable rate received	0.21	% 0.40	% 0.29

We assess our derivatives for effectiveness each quarter and recognized a \$7.5 million charge to earnings, reflected in other income (expense), net related to ineffectiveness of our cash flow hedges for the twelve months ended December 31, 2012.

Our swaps are off-market swaps, meaning they contain an embedded financing element. Our swap counterparties recover this financing through an incremental charge in our fixed rate over what we would be charged for an on-market swap. As such, a portion of our swaps' cash payment is representing the rate we would pay on a hypothetical on-market interest rate swap and is recognized in interest expense. The remainder represents the repayment of the embedded financing element and reduces our swap liability.

All or a portion of the change in fair value of our interest rate swap agreements recorded in accumulated other comprehensive income (loss) may be recognized in earnings in certain situations. If we extinguish all of our variable rate debt, or a portion of our variable rate debt such that our variable rate interest received on our swaps exceeds the variable rate interest paid on our debt, we would recognize in earnings all or a portion of the change in fair value of

our swaps. In addition, we may recognize the change in fair value of our swaps in earnings if we determine it is no longer probable that we will have future variable rate cash flows to hedge against or if a swap agreement is terminated prior to maturity. We have assessed our counterparty risk and determined that no substantial risk of default exists as of December 31, 2012. Each counterparty is a bank with a current credit rating at or above A.

We expect to recognize losses of \$17.9 million, net of taxes, in interest expense in the next twelve months related to the unamortized value of the de-designated portion of interest rate swap agreements at December 31, 2012. Payments on our off-market swaps are presented in the financing activities section of our consolidated statements of cash flows.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies and Changes, Continued:

Changes in value of these instruments were as follows for the years ended December 31:

(Millions)	2012	2011	2010
Changes in fair value of effective portion, net of tax (a)	\$ (12.6)	\$ (20.1)	\$ 1.9
Amortization of unrealized losses on de-designated interest rate swaps (a)	\$ 28.0	\$ 30.3	\$ 3.0
Changes in fair value of undesignated portion (b)	\$ —	\$ —	\$ (0.3)

(a) Included as a component of other comprehensive income (loss) and will be reclassified into earnings as the hedged transaction affects earnings.

(b) Represents non-cash income recorded in other income (expense), net in the accompanying consolidated statements of income.

Revenue Recognition – Service revenues are primarily derived from providing access to or usage of our networks and facilities. Service revenues are recognized over the period that the corresponding services are rendered to customers. Revenues derived from other telecommunications services, including interconnection, long distance and enhanced service revenues are recognized monthly as services are provided. Revenue from sales of indefeasible rights to use fiber optic network facilities ("IRUs") and the related telecommunications network maintenance arrangements is generally recognized over the term of the related lease or contract. Sales of communications products including customer premise equipment and modems are recognized when products are delivered to and accepted by customers. Fees assessed to customers for service activation are deferred upon service activation and recognized as service revenue on a straight-line basis over the expected life of the customer relationship in accordance with authoritative guidance on multiple element arrangements. Certain costs associated with activating such services are deferred and recognized as an operating expense over the same period.

Advertising – Advertising costs are expensed as incurred. Advertising expense totaled \$99.5 million, \$67.8 million, and \$70.9 million in 2012, 2011 and 2010.

Share-Based Compensation – In accordance with authoritative guidance on share-based compensation, we value all share-based awards to employees at fair value on the date of the grant, and recognize that value as compensation expense over the period that each award vests. This expense is included in selling, general and administrative expenses in the accompanying consolidated statements of income.

Pension Benefits – We recognize changes in the fair value of plan assets and actuarial losses due to actual experience differing from actuarial assumptions, as a component of net periodic benefit expense (income) in the fourth quarter in the year in which the gains and losses occur, and if applicable in any quarter in which an interim remeasurement is triggered. The remaining components of pension expense, primarily service and interest costs and assumed return on plan assets, are recorded on a quarterly basis.

Capital Leases – We lease facilities and equipment for use in our operations. These facilities and equipment are included in outside communications plant in property, plant and equipment in the accompanying consolidated balance sheets. Leases with a bargain purchase option, transfer of ownership, contractual life equal to or greater than 75 percent of the remaining estimated economic life of the leased facilities or equipment or minimum lease payments equal to or greater than 90 percent of the fair value of the leased facilities or equipment are accounted for as capital leases in accordance with authoritative guidance for capital leases. The future minimum lease payments for all

non-cancellable capital leases for each of the twelve month periods ending December 31, 2013, 2014, 2015, 2016 and 2017 are \$15.2 million, \$7.0 million, \$3.9 million, \$1.6 million and \$0.5 million, respectively.

Operating Leases – Certain of our operating lease agreements include scheduled rent escalations during the initial lease term and/or during succeeding optional renewal periods. We account for these operating leases in accordance with authoritative guidance for operating leases with non-level rent payments. Accordingly, the scheduled increases in rent expense are recognized on a straight-line basis over the initial lease term and those renewal periods that are reasonably assured. The difference between rent expense and rent paid is recorded as deferred rent and is included in other liabilities in the accompanying consolidated balance sheets. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the lease term, including renewal option periods that are reasonably assured.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies and Changes, Continued:

Income Taxes – We account for income taxes in accordance with guidance on accounting for income taxes, under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax balances are adjusted to reflect tax rates based on currently enacted tax laws, which will be in effect in the years in which the temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period of the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized. In addition, we adopted authoritative guidance which addresses uncertainty in tax positions and clarifies the accounting for income taxes by prescribing a minimum recognition threshold that the income tax positions must achieve before being recognized in the financial statements.

Earnings Per Share – We compute basic earnings per share by dividing net income applicable to common shares by the weighted average number of common shares outstanding during each period. Our non-vested restricted shares containing a non-forfeitable right to receive dividends on a one-to-one per share ratio to common shares are considered participating securities, and the impact is included in the computation of basic earnings per share pursuant to the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings attributable to common shares and participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. Earnings per common share was computed by dividing the sum of distributed earnings and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and non-vested restricted shares based on the pro-rata weighted average shares outstanding during the period.

In conjunction with the acquisition of PAETEC, we granted restricted stock units to former PAETEC employees to replace outstanding, unvested PAETEC restricted stock units held by these same employees as of the acquisition date. Since these restricted stock units contain a non-forfeitable right to receive dividends on a one-to-one per share ratio to common shares, they are considered participating securities and are treated similar to the non-vested restricted shares discussed above.

Beginning in the first quarter of 2011, we began issuing performance-based restricted stock units as part of our share-based compensation plan. These newly issued restricted stock units and previously issued performance-based restricted shares issued contain a forfeitable right to receive dividends. Because dividends attributable to these shares are forfeited if the vesting provisions are not met, they are considered non-participating restricted shares and are not dilutive under the two class method until the performance conditions have been satisfied. We considered the options granted in conjunction with the acquisition of PAETEC in the computation of dilutive earnings per share using the treasury stock method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies and Changes, Continued:

A reconciliation of net income and number of shares used in computing basic and diluted earnings per share was as follows for the years ended December 31:

(Millions, except per share amounts)	2012	2011	2010
Basic and diluted earnings per share:			
Numerator:			
Income from continuing operations	\$168.7	\$169.6	\$312.7
Income from continuing operations allocable to participating securities	(3.6	) (3.4	) (3.0
Adjusted income from continuing operations attributable to common shares	165.1	166.2	309.7
Loss from discontinued operations	(0.7	) (0.1) —
Loss from discontinued operations allocable to participating securities	—	—	—
Adjusted loss from discontinued operations attributable to common shares	(0.7	) (0.1) —
Net income attributable to common shares	\$164.4	\$166.1	\$309.7
Denominator:			
Basic shares outstanding			
Weighted average basic shares outstanding	588.0	516.4	471.0
Weighted average participating securities	(3.5	) (3.7	) (3.0
Weighted average shares outstanding for basic earnings per share	584.5	512.7	468.0
Basic and diluted earnings per share:			
From continuing operations	\$.28	\$.32	\$.66
From discontinued operations	—	—	—
Net income	\$.28	\$.32	\$.66

The calculation of basic earnings per share excludes income attributable to participating non-vested restricted shares from the numerator and excludes the dilutive impact of participating non-vested restricted shares from the denominator.

Revisions to Prior Period Financial Statements

In connection with the preparation of our consolidated financial statements for the year ended December 31, 2012, we became aware of and corrected an error in the accounting for certain promotional credits for new consumer customers. Previously, promotional credits issued on a customer's first bill were deferred and amortized over the length of the contract with the customer. We should have recognized these credits against revenue in the month that they appeared on the customer's bill.

The revisions for the year ended December 31, 2011, which we have assessed and determined are not material to the financial statements, are presented below. In addition, we will revise the previously filed quarterly financial statements for the periods impacted (see Note 18 to the financial statements). These errors are non-cash and did not affect our total operating cash flow for any period.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies and Changes, Continued:

The following table presents the effect the revision had on our consolidated statement of operations:

(Millions, except per share amounts)	As Previously Reported	Effect of Revision	As Revised ^(a)
As of and for the year ended December 31, 2011:			
Consumer service revenues	\$1,380.2	\$(1.9)	\$1,378.3
Total service revenues	4,156.5	(1.9)	4,154.6
Product sales	129.2	(2.6)	126.6
Total revenues and sales	4,285.7	(4.5)	4,281.2
Income taxes	101.1	(1.7)	99.4
Income from continuing operations	172.4	(2.8)	169.6
Net income	172.3	(2.8)	169.5
Basic and diluted earnings per share	0.33	(0.01)	0.32
Advance payments and customer deposits	240.4	3.5	243.9
Other liabilities	646.3	1.0	647.3
Deferred income taxes	1,851.5	(1.7)	1,849.8
Additional paid-in-capital	1,496.1	(2.8)	1,493.3

^(a) The effect of the revision is also reflected in our consolidated statements of cash flows, net income and relevant adjustments to reconcile net income to net cash provided by operating activities.

Change in Accounting Estimate

The calculation of depreciation and amortization expense is based on the estimated economic useful lives of the underlying property, plant and equipment and finite-lived intangible assets. We periodically obtain updated depreciation studies to evaluate whether certain useful lives remain appropriate in accordance with authoritative guidance. With the assistance of outside expertise, we completed analyses of the depreciable lives of assets held for certain subsidiaries during the year 2012. Based on those results, we implemented new depreciation rates resulting in a net increase to depreciation of \$59.1 million and a net decrease in net income of \$36.5 million or \$0.06 per share for the year ended December 31, 2012.

Recently Adopted Accounting Standards

Testing Goodwill for Impairment – Effective January 1, 2012, we adopted authoritative guidance related to the testing of goodwill for impairment. This guidance allows an entity the option to first assess qualitative factors before calculating the fair value of a reporting unit. The entity may avoid applying the current two-step impairment test to a reporting unit if it determines, based on its assessment of qualitative factors, it is more likely than not that the fair value of the reporting unit is greater than its carrying amount. This guidance did not have a material impact on our consolidated financial statements.

Fair Value Measurement – Effective January 1, 2012, we adopted authoritative guidance related to fair value measurements. This guidance expands existing disclosure requirements for fair value measurements and makes other amendments. Key additional disclosures include quantitative disclosures about unobservable inputs in Level 3

measures, qualitative information about sensitivity of Level 3 measures and valuation process, and classification within the fair value hierarchy for instruments where fair value is only disclosed in the footnotes but carrying amount is on some other basis. This guidance did not have a material impact on our consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies and Changes, Continued:

Recently Issued Authoritative Guidance

Balance Sheet Offsetting – In December 2011, the Financial Accounting Standards Board ("FASB") issued authoritative guidance related to balance sheet offsetting. This guidance requires enhanced disclosures for financial instruments and derivative instruments that are subject to an enforceable master netting arrangement. In January 2013, the FASB issued an update to address implementation issues and clarify the scope of the off-setting disclosures. This guidance is effective for fiscal years beginning on or after January 1, 2013, including interim periods therein and requires retrospective application. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

Comprehensive Income – In February 2013, the FASB issued final authoritative guidance regarding the presentation of reclassification adjustments on the statement of comprehensive income. In June 2011, then deferred later that year, the FASB had issued authoritative guidance requiring reclassification adjustments for items that are reclassified from other comprehensive income (loss) to net income be presented on the face of the financial statements where the components of net income and the components of other comprehensive income are presented. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. We do not expect this guidance to have a material impact on our consolidated financial statements.

3. Acquisitions and Dispositions:

Acquisition of PAETEC - On November 30, 2011, we completed the acquisition of PAETEC in an all-stock transaction valued at approximately \$2.4 billion. PAETEC shareholders received 0.460 shares of our stock for each PAETEC share owned at closing. We issued 70.0 million shares and assumed equity awards shares for a total transaction value of \$842.0 million, based on our closing stock price on November 30, 2011, and the fair value of the equity awards assumed. We also assumed PAETEC's debt, net of cash acquired, of approximately \$1,591.3 million, which includes a net premium of \$113.9 million based on the fair value of the debt on November 30, 2011 and bank debt of \$99.5 million that was repaid on December 1, 2011. The PAETEC transaction enhances our capabilities in strategic growth areas, including Internet protocol ("IP") based services, cloud computing and managed services. It significantly advances our strategy to drive top-line revenue growth by expanding our focus on business and fiber transport services.

The following table summarizes the final fair values of the assets acquired and liabilities assumed for PAETEC.

(Millions)	Final Allocation
Fair value of assets acquired:	
Cash and other current assets	\$240.8
Accounts receivable	227.5
Property, plant and equipment	875.7
Goodwill	653.3
Customer lists (a)	830.0
Trade names and other (b)	15.0
Deferred income taxes on acquired assets	162.8
Other assets	8.4
Total assets acquired	3,013.5
Fair value of liabilities assumed:	

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Current maturities of long-term debt and capital lease obligations	(19.0)
Other current liabilities	(453.5)
Long-term debt and capital lease obligations	(1,643.7)
Other liabilities	(55.3)
Total liabilities assumed	(2,171.5)
Common stock issued (inclusive of additional paid-in capital)	\$842.0	

(a) Customer lists will be amortized using the sum-of-years digit methodology over an estimated useful life of ten years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Acquisitions and Dispositions, Continued:

Trade names were amortized on a straight-line basis over an estimated useful life of one year. Other intangibles, (b) which includes internally developed software, will be amortized on a straight-line basis over an estimated useful life of three years.

Supplemental Pro Forma Information (Unaudited) – PAETEC Acquisition - The amounts of PAETEC's revenue and net loss included in our consolidated statements of income for the year ended December 31, 2012, and the revenue and net income from continuing operations of the combined entity for the twelve months ended December 31, 2011 and 2010 had the acquisition occurred January 1, 2010, are as follows:

(Millions)	Revenue	Net (Loss) Income from Continuing Operations
PAETEC actual for the twelve months ended December 31, 2012	\$2,106.8	\$(69.4)
Supplemental pro forma for the twelve months ended December 31, 2011	\$6,170.1	\$115.0
Supplemental pro forma for the twelve months ended December 31, 2010	\$5,324.5	\$192.1

The pro forma information presents our historical results adjusted to include PAETEC, with the results prior to the merger closing date adjusted to include the pro forma effect of the elimination of transactions between us and PAETEC, the adjustment to revenue to align revenue policies, the adjustment to amortization expense associated with the estimated acquired fair value of intangible assets, the impact of merger and integration expenses related to the acquisition and the impact of tax benefits from PAETEC's loss from operations.

The pro forma results are presented for illustrative purposes only and do not reflect either the realization of potential cost savings or any related integration costs. Certain cost savings may result from the PAETEC merger, although there can be no assurance that cost savings will be achieved. These pro forma results do not purport to be indicative of the results that would have actually been obtained if the merger had occurred as of the date indicated, nor do the pro forma results intend to be a projection of results that may be obtained in the future.

Acquisition of Q-Comm – On December 2, 2010, we completed the acquisition of Q-Comm Corporation ("Q-Comm"), a privately held regional fiber transport and business communications provider. This acquisition significantly enhanced our fiber network with increased scale and business revenues, as well as the opportunity for operating synergies across our markets. Under the terms of the merger agreement, we paid \$279.1 million in cash, net of cash acquired, and issued approximately 20.6 million shares of our common stock valued at \$271.6 million to acquire all of the issued and outstanding shares of Q-Comm common stock. We also repaid \$266.2 million in outstanding indebtedness and related liabilities on existing swap agreements of Q-Comm. The transaction included Q-Comm's wholly-owned subsidiaries Kentucky Data Link, Inc. ("KDL"), a fiber services provider in 23 states and the District of Columbia, and Norlight, Inc. ("Norlight"), a business communications provider serving approximately 5,500 business customers.

Acquisition of Hosted Solutions – On December 1, 2010, we completed the acquisition of Hosted Solutions Acquisitions, LLC ("Hosted Solutions") in an all-cash transaction valued at \$312.8 million, which included a \$2.8 million net working capital adjustment, net of cash acquired. We financed the transaction through cash reserves and revolving credit capacity. Hosted Solutions, based in Raleigh, N.C., is a leading regional data center and managed hosting provider focused on enterprise-class Infrastructure as a Service (IaaS) solutions. This acquisition provided us with five state-of-the-art data centers in Raleigh, NC, Charlotte, NC, and Boston, MA which serve more than 600

customers.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Acquisitions and Dispositions, Continued:

The following table summarizes the final fair values of the assets acquired and liabilities assumed for Hosted Solutions and Q-Comm.

(Millions)	Hosted Solutions Final Allocation	Q-Comm Final Allocation	
Fair value of assets acquired:			
Current assets	\$6.8	\$35.4	
Property, plant and equipment	40.7	293.5	
Goodwill	175.7	358.0	
Customer lists (a)	87.8	292.5	
Non-compete agreements (b)	7.4	—	
Trade names (c)	1.3	3.7	
Other assets	2.2	19.6	
Total assets acquired	321.9	1,002.7	
Fair value of liabilities assumed:			
Current maturities of long-term debt	—	(255.1)
Other current liabilities	(6.3	)	(55.0)
Deferred income taxes on acquired assets	—	(117.9)
Other liabilities	(2.8	)	(24.0)
Total liabilities assumed	(9.1	)	(452.0)
Common stock issued (inclusive of additional paid-in capital)	—	(271.6)
Cash paid, net of cash acquired	\$312.8	\$279.1	

(a) Customer lists are amortized using the sum-of-years digit methodology over an estimated useful life of 13 years for Hosted Solutions and 15 years for Q-Comm.

(b) Non-compete agreements are amortized on a straight-line basis over an estimated useful life of three years.

(c) Trade names were amortized on a straight-line basis over an estimated useful life of one year.

Acquisition of Iowa Telecom – On June 1, 2010, we completed the acquisition of Iowa Telecom, based in Newton, Iowa. This acquisition provided us with a sizable operating presence in the upper Midwest and the opportunities for operating efficiencies with our contiguous markets. As of June 1, 2010, Iowa Telecom provided service to approximately 247,000 voice lines, 96,000 high-speed Internet customers and 25,000 digital television customers in Iowa and Minnesota. Pursuant to the merger agreement, each share of Iowa Telecom common stock was converted into the right to receive 0.804 shares of our common stock and \$7.90 in cash. We paid \$253.6 million in cash, net of cash acquired, and issued approximately 26.7 million shares of common stock valued at \$280.8 million on the date of issuance. In addition, we repaid outstanding indebtedness, including related interest rate swap liabilities, of Iowa Telecom of \$628.9 million.

Acquisition of NuVox – On February 8, 2010, we completed our acquisition of NuVox, Inc. ("NuVox"), a business communications provider based in Greenville, South Carolina. Consistent with our focus on growing revenues from business customers, the completion of the NuVox acquisition added approximately 104,000 business customer locations in 16 contiguous Southwestern and Midwest states. In accordance with the NuVox merger agreement, we

acquired all of the issued and outstanding shares of common stock of NuVox for \$198.4 million in cash, net of cash acquired, and issued approximately 18.7 million shares of common stock valued at \$185.0 million on the date of issuance. We also repaid outstanding indebtedness and related liabilities on existing swap agreements of NuVox totaling \$281.0 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Acquisitions and Dispositions, Continued:

The following table summarizes the final fair values of the assets acquired and liabilities assumed for NuVox and Iowa Telecom.

(Millions)	NuVox Final Allocation	Iowa Telecom Final Allocation
Fair value of assets acquired:		
Assets held for sale (a)	\$—	\$34.0
Other current assets	68.0	36.7
Property, plant and equipment	241.7	329.9
Goodwill	270.5	552.4
Wireline franchise rights (b)	—	230.0
Cable franchise rights (b)	—	5.6
Customer lists (c)	180.0	130.6
Trade name (d)	4.2	3.1
Other assets	—	11.1
Total assets acquired	764.4	1,333.4
Fair value of liabilities assumed:		
Current maturities of long-term debt	(260.7	) (610.2
Other current liabilities	(63.8	) (49.7
Deferred income taxes on acquired assets	(29.7	) (109.6
Other liabilities	(26.8	) (29.5
Total liabilities assumed	(381.0	) (799.0
Common stock issued (inclusive of additional paid-in capital)	(185.0	) (280.8
Cash paid, net of cash acquired	\$198.4	\$253.6

(a) Wireless licenses acquired from Iowa Telecom were designated as held for sale.

(b) Wireline franchise rights and cable franchise rights are amortized on a straight-line basis over an estimated life of 30 years and 15 years, respectively.

(c) Customer lists are amortized using the sum-of-years digit methodology over an estimated useful life of nine years.

(d) Trade names were amortized on a straight-line basis over an estimated useful life of one year.

We have conducted appraisals necessary to assess the fair values of the assets acquired and liabilities assumed and the amount of goodwill recognized as of the respective acquisition dates for NuVox, Iowa Telecom, Hosted Solutions, Q-Comm and PAETEC (collectively known as the "Acquired Companies"). The accompanying consolidated financial statements reflect our combined operations with the Acquired Companies for the periods following the respective acquisition dates. Employee severance and transaction costs incurred by us in conjunction with these acquisitions have been expensed to merger and integration expense in the accompanying consolidated statements of income (see Note 10).

The costs of the acquisitions were allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the acquisition dates, with amounts exceeding fair value recognized as goodwill. Goodwill associated

with the acquired companies is attributable to the workforce of acquired businesses and expected synergies. Approximately \$173.7 million and \$38.7 million of goodwill associated with the acquisitions of Hosted Solutions and PAETEC, respectively, is expected to be deductible for tax purposes.

The fair values of the assets acquired and liabilities assumed were determined using income, cost, and market approaches. Identified intangible assets, consisting primarily of customer lists, were valued primarily on the basis of the present value of future cash flows, which is an income approach. Significant assumptions utilized in the income approach were based on our specific information and projections, which are not observable in the market and are thus considered Level 3 measurements as defined by authoritative guidance. The cost approach, which estimates value by determining the current cost of replacing an

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Acquisitions and Dispositions, Continued:

asset with another of equivalent economic utility, was used as appropriate for property, plant and equipment. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the asset, less an allowance for loss in value due to depreciation. The fair value of the long-term debt and related interest rate swap agreements assumed were determined based on quoted prices for the repayment of these instruments.

The PAETEC credit facility was valued based on the expected redemption cost, while the remaining bonds were valued based on market value. Equity consideration was based on the closing price of our common stock on November 30, 2011. Consideration related to assumed restricted stock units was calculated based on the closing price of our common stock on November 30, 2011, net of the portion of the fair value attributable to future vesting requirements. Consideration related to assumed stock options was calculated based on the fair value of the new Windstream stock options issued as of November 30, 2011, net of the portion of the fair value attributable to future vesting requirements. The fair value of these stock option awards was calculated using the Hull-White II Lattice model based on assumptions determined as of November 30, 2011. The amount allocated to unearned compensation cost for awards subject to future service requirements was calculated based on the fair value of such awards at the acquisition date and will be recognized as compensation cost over the remaining future service period.

The purchase price allocations for the Acquired Companies have been completed. Pro forma financial results related to the acquisitions of the Acquired Companies excluding PAETEC have not been included because we do not consider these acquisitions to be significant individually or in the aggregate.

4. Goodwill and Other Intangible Assets:

Goodwill represents the excess of cost over the fair value of net identifiable tangible and intangible assets acquired through various business combinations. The cost of acquired entities at the date of the acquisition is allocated to identifiable assets, and the excess of the total purchase price over the amounts assigned to identifiable assets has been recorded as goodwill.

Changes in the carrying amount of goodwill were as follows:

(Millions)

Balance at December 31, 2010	\$3,671.2
Acquisition of Hosted Solutions	3.9
Acquisition of Q-Comm	12.5
Acquisition of PAETEC	614.1
Balance at December 31, 2011	4,301.7
Acquisition of PAETEC (a)	39.2
Balance at December 31, 2012	\$4,340.9

(a) Adjustments to the carrying value of goodwill were attributable to adjustments in the fair values of assets acquired and liabilities assumed in the acquisition, as previously discussed in Note 3.

As of January 1, 2012, we completed our annual impairment review of goodwill in accordance with authoritative guidance and determined that no write-down in carrying value was required. As discussed in Note 2, effective January 1, 2012, we have determined that we have one reporting unit to test for impairment. We assess goodwill impairment by evaluating the carrying value of shareholder's equity against the current fair market value of outstanding equity, which is determined to be equal to our current market capitalization plus a control premium of

20.0 percent. This premium is estimated through a review of recent market observable transactions involving telecommunication companies.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Goodwill and Other Intangible Assets, Continued:

Intangible assets were as follows at December 31:

(Millions)	2012			2011		
	Gross Cost	Accumulated Amortization	Net Carrying Value	Gross Cost	Accumulated Amortization	Net Carrying Value
Franchise rights	\$1,285.1	\$(157.6)	\$1,127.5	\$1,285.1	\$(114.8)	\$1,170.3
Customer lists (a)	1,914.0	(747.6)	1,166.4	1,939.0	(464.2)	1,474.8
Cable franchise rights	39.8	(25.9)	13.9	39.8	(24.7)	15.1
Other (a)	37.9	(34.4)	3.5	44.9	(19.8)	25.1
Balance	\$3,276.8	\$(965.5)	\$2,311.3	\$3,308.8	\$(623.5)	\$2,685.3

(a) Changes in the gross cost of intangible assets were associated with the acquisition of PAETEC as previously discussed in Note 3.

Intangible asset amortization methodology and useful lives were as follows as of December 31, 2012:

Intangible Assets	Amortization Methodology	Estimated Useful Life
Franchise rights	straight-line	30 years
Customer lists	sum of years digits	9 - 15 years
Cable franchise rights	straight-line	15 years
Other	straight-line	1 - 3 years

Amortization expense for intangible assets subject to amortization was \$342.0 million, \$220.6 million and \$154.1 million in 2012, 2011 and 2010, respectively. Amortization expense for intangible assets subject to amortization is estimated to be \$291.2 million, \$256.2 million, \$223.1 million, \$185.0 million and \$157.2 million in 2013, 2014, 2015, 2016 and 2017, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Long-term Debt and Capital Lease Obligations:

Long-term debt and capital lease obligations were as follows at December 31:

(Millions)	2012	2011
Issued by Windstream Corporation:		
Senior secured credit facility, Tranche A2 – variable rates, due July 17, 2013	\$19.5	\$172.3
Senior secured credit facility, Tranche A3 – variable rates, due December 30, 2016	408.8	—
Senior secured credit facility, Tranche A4 – variable rates, due August 8, 2017	292.5	—
Senior secured credit facility, Tranche B – variable rates, due July 17, 2013	280.9	283.8
Senior secure		